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Special Joint committee on Consumer
credit
Proceedings. 1964-65



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Second Session—Twenty-sixth Parliament

1964—65

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 1—18

TUESDAY, JUNE 2, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-Rainy
River*)
Smith (*Queens-Shel-
burne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Bell
Cashin
Chretien
Clancy
Coates
Cote (*Longueuil*)
Crossman
Deachman

Drouin
Greene
Grégoire
Hales
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Pennell
Ryan
Scott
Vincent—24.

(Quorum 7)



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ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarch, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,

Clerk of the House of Commons.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th 1964.

"On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côte (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint their Honours thereof."

LEON J. RAYMOND,

Clerk of the House of Commons.

MINUTES OF PROCEEDINGS

TUESDAY, June 2, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw, Hollett, Irvine, McGrand, Stambaugh and Thorvaldson,
and

House of Commons: Messrs. Greene (*Joint Chairman*), Bell, Chrétien, Grégoire, Hales, Macdonald, Mandziuk and Orlikow—(15).

In attendance: Mr. John J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

The Committee proceeded to the consideration of the Order of Reference.

The following witness was heard and questioned:

Mr. K. R. MacGregor, Superintendent of Insurance.

At 12.35 p.m. the Committee adjourned until Tuesday, June 9, 1964, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

Special Joint Committee of the Senate and House of Commons on Consumer Credit

EVIDENCE

OTTAWA, Tuesday, June 2, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10:00 a.m.

Senator DAVID A. CROLL and Mr. J. J. GREENE, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: We have a quorum: I will call the meeting to order.

Let me first put on the record the terms of reference. It was resolved:

That a Joint Committee of the Senate and House of Commons be appointed to continue the inquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to inquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past session be referred to the said committee and made part of the records thereof;

That the said committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its members to act on the proposed Joint Committee.

There was referred to the Committee the following bills:

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

Bill S-3, An Act to make Provision for the Disclosure of Information in respect of Finance Charges.

Bill C-60, An Act to amend the Combines Investigation Act (Captive Sales Financing).

These are the bills that are before the committee.

Pursuant to instructions of the last meeting, we have an office in the West Block, Room 232, and a secretary. Mr. John J. Urie, Q.C., of Ewart, Kelley, and Company, is our counsel, and Mr. Jacques L'Heureux the accountant. They are part of the staff that we have.

You have all been furnished with a list of organizations invited to appear. If there are any that you wish to add, just let me know, and I will see that they are invited.

Tentatively, the meetings that we have been able to arrange are as follows: We thought first that we would have to go into the educational aspects of this business, and our first witness will be Mr. K. R. MacGregor, the Superintendent of Insurance. Next week we will have Mr. Gerald Bouey, Chief of the Research Department of the Bank of Canada. The following week the Canadian Federation of Agriculture, the Credit Union National Association, and the Ontario Credit Union League have indicated that they wish to be heard. Others have also indicated that they wish to be heard.

It appears that the three acts that are pertinent,—The Small Loans Act, the Money-Lenders Act, and the Interest Act, are in the main administered by Mr. MacGregor, Superintendent of Insurance, and I thought we would start this morning by having Mr. MacGregor speak to us and put us broadly in the picture so far as those three acts are concerned.

Mr. HALES: Just before we start with Mr. MacGregor; to get our committee organized and so on, you have mentioned that we have hired certain people. What is the basis on which they are hired, and the salaries paid to these people?

Co-Chairman Senator CROLL: The secretary is on the normal basis of whatever secretaries receive. I think it is \$337.50 a month.

Mr. HALES: And the others?

Co-Chairman Senator CROLL: Mr. John J. Urie is on the basis of \$250 for a seven-hour day, plus \$25 for preparation per hour; Mr. Jacques L'Heureux is on the basis of \$100 per seven-hour day, with \$20 per hour. Anything else?

Mr. HALES: No.

Co-Chairman Senator CROLL: All right. Then I will call on Mr. MacGregor.

Mr. K. R. MacGregor, Superintendent of Insurance: Mr. Chairman, honourable senators, honourable members: I assume that I have been invited to appear before this committee because of the long connection that the Department of Insurance has had with the supervision of various kinds of financial organizations carrying on business involving the subject of interest. Perhaps my invitation also stems from the fact that our Department has done most of the actuarial work of the government, and various departments of the government for many years, and it is well known that actuarial work embraces interest as one of its basic elements. Among the financial institutions that we supervise are insurance companies, trust companies, mortgage loan companies, personal loan companies, central co-operative credit associations, and this work is carried out by virtue of the Canadian and British Insurance Companies Act, the Foreign Insurance Companies Act, the Trust Companies Act, the Loan Companies Act,

the Small Loans Act, the Co-operative Credit Associations Act, etc. I speak therefore as an actuary and as an administrator of some federal legislation touching the field of consumer credit.

At the outset I should like to correct the chairman, with all deference, sir, concerning the acts that I think are before you, and which you mentioned were administered by our department. Actually of the three acts you mentioned, only the Small Loans Act is administered by our department. The Money-Lenders Act was never administered by our department or by any department of government and is no longer in force. The Interest Act is still in force, but we have never had any responsibilities under it, nor in fact has any other government department, as far as administration is concerned.

I should mention at the outset that I have not prepared any formal brief, for several reasons. In the first place it has been physically impossible to find the time to do so. For this I apologize to the committee, but I can assure you that our department has been working under considerable pressure in connection with many special matters in recent times, among these being the Canada Pension Plan, various royal commission work, and proposed amendments to the Insurance Act.

Secondly, I am not sure what particular aspects of the consumer credit field you would wish me to deal with. I assume however that the main interest of the committee is in studying the various kinds of consumer credit, the sources of it, and especially the cost of it: perhaps, more particularly still, the ways in which the cost can be controlled or influenced by legislation designed to ensure that the public is not charged an exorbitant cost. In these circumstances it would seem that my most useful contribution at this stage would be to outline federal legislation respecting interest and consumer credit. In doing so, and without going into details, I would suggest that the committee might keep in mind the two main kinds of consumer credit: first, cash loans, and second, transactions relating to the sale of goods or services on some kind of time-payment plan. There has been legislation respecting both of these forms of consumer credit, not only in Canada but in some other countries of the world. But rather naturally, however, the business of money-lending, that is to say, the part of the field of consumer credit related to cash loans, is very much the older form of credit, and hence it is not surprising that most of the legislation respecting consumer credit relates to the business of money-lending or of cash loans.

Now, looking at a cash loan, the primary transaction is of course the borrowing of money, whereas in the other main sections of the consumer credit field, the primary transaction is the purchase of goods. However, both of these transactions give rise to debt, and if the debt is to be repaid on some kind of instalment or time-payment plan, almost inevitably the subject of interest becomes entwined in it.

Now it may be that the committee is not much interested in the really old history of the subject of usury and interest—that is to say, back in Biblical times and so on; nevertheless, just to bring the subject matter into perspective, perhaps I might make a few comments upon the older views that prevailed, and the change in the attitude of the public towards usury and interest in the last three or four hundred years, dating from roughly the 16th century.

Prior to the middle of the 16th century, usury was generally regarded as a very serious evil, and this included the taking of any interest, whether exorbitant or not. This attitude had a background of two thousand years of church and moralist writings, which branded profit derived in this way as a sin. The theoretical basis of the attacks on usury involved certain views about the nature of money and a loan.

Aristotle seemingly looked upon usury as "unnatural" since "money was intended to be used in exchange, but not to increase at interest." Money itself was barren; it was unnatural to think of money breeding money.

Thomas Aquinas held the view that to demand a price for money was to charge twice for the same thing. Other churchmen took the position that in the case of any loan, the article lent became the absolute property of the borrower during the period of the loan. Hence to take interest or to practise usury was akin to making a profit from someone else's goods. This, in their view, amounted virtually to theft.

The practical reason for usury being condemned, at least until the 16th century, was that the relatively simple village economy did not need large amounts of capital. Hence the condemnation arose for the protection of the peasant, artisan and small merchant against the greed of the local money man in times of poor crops or lean times otherwise.

Perhaps the manner in which interest and usury were regarded until well on in the 16th century may be illustrated by a few quotations from writings around that time.

The Archbishop of York grouped usurers with other sinners in his Injunctions in 1571:

You shall not admit to the receiving of the holy communion any of your parish, which be openly known to live in notorious sin, as incest, adultery, fornication, drunkenness, much swearing, bawdery, usury or such like.

To another Archbishop, usury was "that biting worm, that devouring wolf".

To the poet, Thomas Lodge, usurers were "the caterpillars of a common weale, the sting of the adder, nay the privy foes of all gentry".

The lawyer and moralist, Thomas Wilson, in his *Discourse Upon Usury*, 1572, wrote:

That ouglie, detestable and hurtefull synne of usurie is so rank throughout all England, that men have altogether forgotten free lending, and have given themselves to live by foul gaining, making the loan of money a kind of merchandise, a thing directly against all law, against nature and against God.

He also claimed that usury was nothing but "a fraudulent and crafty stealing of another man's goods".

To the Reverend Miles Mosse, a man who lent for nothing could be a usurer, if he hoped that the borrower "will in regard thereof speak a good word for me, help me to a good marriage, procure me a gainful office, or such like". Such a person, said Mosse, was "not an Open and Actuall, but an Inward and Mental usurer"; all that one should hope for in lending is "the love and good will of the borrower".

Up to this time, that is, the 16th century, the clergy of all denominations in England were apparently in the van of opposition to the usurer. The general theme seems to have been "Love ye your enemies, and do good, and lend, hoping for nothing again". Usury and the sin of avarice were a popular text for sermons at that time and also a very popular subject of plays. Shakespeare's Shylock symbolized the ugly usurer as compared with Antonio who "lends out money gratis".

As far as English law at that time was concerned, it was solidly in line with public thinking. For example, the Act of 1552 read in part as follows:

Usurie is by the word of God utterly prohibited, as a vice most odious and detestable...which thing by no godly teachings and persuasion can sink into the hearts of divers greedy, uncharitable, and covetous persons of this Realm...unless some temporal punishment be provide.

As for punishment, the usurer was subject to imprisonment; and both principal and interest were forfeited and divided between the Crown and the injured party. In addition, the usurer was liable to punishment under church laws, usually involving excommunication in the case of the Church of England.

However, it was during the middle or later part of the 16th century that great intellectual, commercial and industrial expansion began, marking the beginning of the more modern economy that we know today—our world of corporate enterprise, lending institutions and international trade. Coupled with it, grew an ever-increasing need for more capital. The old laws and thoughts concerning usury inevitably fell under extreme pressure to change in harmony with changing economic conditions but for a while the gap between principles and practice became substantial. The medieval church on occasion apparently arranged high-interest loans from Italian bankers. The Hundred Years' War was apparently financed in large part by loans from Italian bankers. Mary Tudor, while enforcing the laws respecting usury, is said to have told Sir Thomas Gresham to obtain loans in Antwerp "in the most secret manner".

Not only did practice depart from the law, but the law itself almost invited deception. As one preacher said, the cloaks of usury are infinite, and Miles Mosse referred to the "cunning and subtle traffic" of a money lender who hid usury behind a lawful contract by forcing his borrowers to buy old clothing from him at high prices.

Apparently even in those days, attempts were made to charge interest indirectly or under another name or through some device.

The forces of economics in the 16th century steadily induced changes in the law and public attitude. Among other things, Englishmen were losing trade to competitors in the Low Countries where interest up to 10% was permitted. The canon laws on usury were relaxed so as to permit several exceptions from a complete ban, including the purchase of annuities, the acceptance of rent from land or a penalty for not repaying a loan at the due date.

It would seem that 1571 was the turning point as far as English laws respecting usury were concerned. In that year the British Parliament passed an Act permitting interest up to 10% per annum. Although the Act provided for the possible recovery of all interest paid by a borrower if he wished to sue the lender, yet it clearly admitted the propriety of a reasonable amount of interest as an economic necessity and abandoned the traditional attitude that any profit on money lending is usurious and wrong. Thereafter, as one member of Parliament put it in 1571, the legal distinction was between "biting and over-sharp dealing" and a reasonable maximum interest rate set by the state.

And so, today, usury is usually referred to in connection with money-lending at exorbitant rates, especially at rates higher than those fixed by law, while interest at a reasonable rate is universally accepted as entirely proper.

Now, Mr. Chairman, if I may do so, I should like to turn to the course of legislation respecting interest in Canada. And this, of course, really relates to the background of the Interest Act.

In Canada, the earliest legislation relating to interest, usury and money-lending was the Act 17 Geo. III, 1777, Cap. III, being an Ordinance for ascertaining damages on protested Bills of Exchange and fixing the rate of interest

in the Province of Quebec. Section V of this Act fixed the maximum rate at 6% per annum for all contracts, the imposition of a higher rate resulting in avoidance of the contract as well as other severe penalties.

A similar provision was included in an Act passed in Upper Canada in 1811, 51 Geo. III, Cap. IX.

In 1853, both of the foregoing provisions were repealed by the Act 16 Vict. c. LXXX of the Legislature of the former Province of Canada. This Act, although less severe in some respects, contained a provision that every contract

shall be void so far, and so far only, as relates to any excess of interest thereby made payable above the rate of Six Pounds for the forbearance of One Hundred Pounds for a year, and the said rate of six per cent interest, or such lower rate of interest as may have been agreed upon, shall be allowed and recovered in all cases where it is the agreement of the parties that interest shall be paid.

A later Act in 1858, 22 Vic. c. LXXXV, authorized the contracting parties to agree upon any rate of interest but fixed 6% as the interest payable where no rate was stipulated by the parties or by the law.

I should like, honourable members, to emphasize this particular Act of 1858, because this was the origin of the present sections 2 and 3 of the Interest Act. I would suggest therefore that perhaps you might mark "1858" beside sections 2 and 3 on your copy of the Interest Act.

By section 91 of the B.N.A. Act, the subject of interest was specifically allocated to the Dominion. Several Acts were consequently passed by Parliament in 1873 (Chapter 70, relating to interest in the Provinces of Ontario and Quebec and Chapter 71 relating to Nova Scotia), 1875 (Chapter 18, relating to New Brunswick), 1880 (Chapter 42, relating to interest on mortgages), and in 1886 (Chapter 44, relating to British Columbia), which, together with certain provisions of the Acts of Prince Edward Island of 1869, were consolidated in Chapter 127 of the Revised Statutes of 1886, entitled *An Act Respecting Interest*.

I should like at this point to draw the attention of the Committee particularly to Chapter 42 of 1880, relating to interest on mortgages, and which I mentioned an instant ago: it was popularly known as the Orton Act. Mr. Orton represented the constituency of Centre Wellington, in Ontario, as it was then called, and the Orton Act had for its purpose the correction of alleged abuses existing in the mortgage field at that time. The important point for present purposes is that the Orton Act contains the original substance of most of sections 6 to 11 of the present Interest Act. I would therefore suggest that members of the Committee might mark beside section 6 right down to 11 inclusive of their copy of the Interest Act the designation "Orton Act, 1880.", because that is where it all came from.

In 1897, a bill was introduced by Sir Oliver Mowat providing that where the rate of interest under any contract exceeded 8% per annum the Court should have discretion to declare the contract unenforceable. The bill was designed to prevent abuses such as a case cited where interest at 5% per day had been provided for and judgment for recovery obtained. The bill was drastically revised in Committee and emerged as Chapter 8 of the statutes of 1897, which contains the originals of sections 4 and 5 of the present Interest Act, namely, a provision that only 5% per annum can be recovered under a contract providing for interest at shorter intervals than yearly unless the contract expressly states the yearly equivalent of the periodical rate, and a provision for the recovery of any excess interest paid.

Again, therefore, I would suggest that members might mark beside sections 4 and 5 of the Interest Act "Mowat, 1897", because these sections came from his bill.

So far as the rest of the Interest Act is concerned, I think I need not comment. Sections 12 to 15 at the end relate to interest on judgment debts in certain provinces. My recollection is that sections 13, 14 and 15 originated about 1889 or 1890, but section 12 was enacted only in 1917, I think, making it clear that these last few sections apply only in the provinces named above, that is, Manitoba, British Columbia, Saskatchewan, Alberta and the Territories.

Mr. MACDONALD: Excuse me: did the pre-federal laws apply in the other provinces? Is that why they are not included?

Mr. MACGREGOR: All the interest laws in the provinces here mentioned were consolidated in federal legislation.

Mr. MACDONALD: I was thinking more particularly of the provisions regarding judgment debts.

Mr. MACGREGOR: I am not sure.

Mr. MACDONALD: I have forgotten.

Mr. MACGREGOR: From the foregoing, the main sections of the Interest Act, and more particularly sections 2 to 11, have been accounted for, and it will thus be seen that the roots of the Interest Act are very old. If any members of the committee are interested in further details, one will find a considerable volume of information in appendix B to our 1936 Report on Small Loan Companies, copies of which are available from our department.

Perhaps, in looking at the Interest Act, one might note that it refers mainly to a "rate" of interest, and it does not define "interest". In section 2, reference is made to "discount," but there is no reference in the Act to "bonus," for example, or any other charges. Looked at as a whole, I think the Interest Act may be regarded as a combination of freedom—for example, section 2—restriction and disclosure. Perhaps the members of the committee might be particularly interested in the latter aspect, namely, disclosure.

Sections 4 and 6 both relate to a particular kind of transaction involving interest, and they provide that, in the absence of a statement showing the yearly rate under section 4, the maximum rate that may be enforced is 5%; and under section 6, the creditor cannot get any interest at all. My point is that, with all the talk lately about legislation of the disclosure type, it is of some interest and probably of some significance that in the Interest Act almost from the beginning there have been provisions requiring disclosure, and as far as I am aware, that aspect has never been questioned in any court in any cases involving the Interest Act. The Interest Act applies generally to any contracts or transactions involving interest, but from a practical point of view it really applies almost entirely to money-lending transactions rather than to the sale of goods on time.

Senator THORVALDSON: I wonder if you would refer again to section 4 of the Interest Act. That seems to be very significant legislation in regard to the problem we are considering here. It seems to me it might apply to some of the contracts that we have been talking about.

Mr. MACGREGOR: I think it is conceivable that it might, Senator Thorvaldson. The difficulty is that section 4 refers to contracts where the rate of interest is expressed as a rate or a percentage per day, week, month or for any period less than a year. Consequently, to apply the section, I think one has to find in the contract some expression of a rate of interest on a monthly basis or for a period less than a year and there is difficulty in practice in applying this section to conditional sale agreements. For example, I think finance charges for such agreements are usually expressed either as a lump sum or on an annual basis, and consequently the argument is that section 4 does not apply. I think nevertheless it is conceivable that it might apply. Whether lawyers are familiar with it or not I don't know.

Senator THORVALDSON: I confess I wasn't familiar with that section although I probably read it. But I am amazed how far it goes.

Mr. MACGREGOR: The Interest Act has not been amended for many long years, apart from section 12 in 1917, and I think it is fair to say that it has had relatively little effect as far as controlling excessive interest is concerned. I would suggest that members might keep in mind, as the more important parts of this Act, sections 2, 3, 4 and 6. Those four contain the main substance of the whole Act.

Section 2 permits any rate to be agreed upon. Sections 3, 4 and 6 are limiting only in the absence of information about the rate being given in the contract; and I mentioned before that sections 4 and 6 are also of a disclosure type.

Senator HOLLETT: In section 2 there is no limit at all, is there, to the rate of interest that may be charged?

Mr. MACGREGOR: That is correct, sir.

Senator HOLLETT: It seems that we can do nothing until that section is amended, Mr. Chairman.

Senator THORVALDSON: I would not admit my friend's last statement. There is nothing wrong with that section. I don't think it really touches our problem. What we are concerned about is what is set out in sections 4 to 6, namely disclosure.

Mr. MACDONALD: I think probably the situation would be covered by the words "Except as otherwise provided by this or by any other Act of the Parliament of Canada." What we are really talking about is another act of the Parliament of Canada which will achieve whatever this Committee will decide.

Mr. MACGREGOR: Section 2 is of general application, but it certainly does not limit the power of Parliament to restrict maximum rates of interest in any other piece of legislation, as in fact it has done in the Small Loans Act.

Before leaving the Interest Act, I would just like to reiterate that although it has been on the statute books for a very long time, it has not been amended for years, and no one is charged with responsibility for administering it.

Now, Mr. Chairman, if I may, I should like to go on to the next significant phase of interest legislation, namely the Money-Lenders Act.

Mr. BELL: Was this ever administered by anybody,—the Interest Act?

Mr. MACGREGOR: No, Mr. Bell, not to my knowledge; and I speak with virtual certainty.

Senator THORVALDSON: Of course, when you speak about administration, the Interest Act is really part of the general law of Canada, in the same way that hundreds of statutes are that are not administered by any department or any authority.

Mr. MACGREGOR: That is correct; and I do not suggest that the Interest Act should be administered by any department; but the difficulty is that an injured party must take the initiative to seek a remedy. No government office or department is going to take the initiative for him.

The last significant legislation that I mentioned in this connection was the act of 1897 sponsored by Sir Oliver Mowat, so I will just take up the thread of the story from there. I am turning to the origin of the Money-Lenders Act.

Up to the Mowat bill of 1897, the legislation was not specifically framed for the protection of small borrowers on personal security and was inadequate for this purpose. Nevertheless it was known that unduly high rates were being charged on personal loans and the situation was generally unsatisfactory. At

the session of Parliament in 1899 Senator Dandurand introduced a Bill entitled *An Act Respecting Usury*, which fixed a limit of 20% per annum on any loan. In discussion in Committee, the Bill was amended to apply only to loans of \$500 or less. Its application was also limited to loans by a "money lender", who was defined as one

Who carries on the business of money lending or advertises or announces himself, or holds himself out in any way, as carrying on that business and makes a practice of lending money at a higher rate than ten per centum per annum, but does not include a pawn broker as such.

This definition may be regarded as the original of the definition of "money lender" in section 2 of the subsequent Money-Lenders Act. This Bill was not enacted in 1899 but was revived and passed, with certain amendments, as the Money-Lenders Act in 1906, the maximum rate of 20% per annum being unfortunately replaced by the rather ambiguous and uncertain references to 12% found in sections 6 and 7. I would suggest that members might mark sections 6 and 7 as the really significant sections of the Money-Lenders Act. They are the ones that really rendered it ineffective.

It might be interesting to observe here that the Money-Lenders Act in Great Britain came into existence in 1900 following intensive study in the immediately preceding years and the credit union movement on this continent also had its birth during this period. The first Caisse Populaire was founded by Alphonse Desjardins at Levis, Quebec, in 1900, partly because of the high interest rates then prevailing on small loans and partly because of the lack of facilities for obtaining them at any price. Mr. Desjardins was at one time a Parliamentary reporter and his brother was for several years Deputy Minister of Public Works.

The Money-Lenders Act was conceived in good intentions but over the years proved to be quite ineffective. Its main defect lay in the fact that "interest" was not defined and could not be held to include ancillary expenses, especially in view of the conflicting references to 12% for interest alone in section 6 and to 12% for both interest and expenses in section 7. Section 6 in effect said that the lender could not charge more than 12% per annum on a loan up to \$500, but, in seeking a remedy under section 7, the limit spelled out there involves not only interest, but all related expenses, which must be within 12%. The question was, what was the status of these other charges, these ancillary charges, that might be coupled with the rate of interest in the contract?

Other reasons for the ineffectiveness of the Money-Lenders Act were that no licensing or supervision of money lenders was required, no one was charged with the responsibility of enforcing its terms, and borrowers were reluctant to incur the publicity and expense of taking remedial action themselves. The Act was still included in the Revised Statutes, 1952, as Chapter 181, but it was finally repealed in 1956, when the Small Loans Act was revised. Consequently, members might like to mark their copy of the Money-Lenders Act to the effect that it was repealed in 1956.

Mr. Chairman, I come now to the third and, I think, the most important piece of federal legislation involving interest, namely, the Small Loans Act. I hope that what I may say on this Act, concerning its background, will not bore the Committee or weary you too much. However, I really feel it is desirable, if not necessary, to touch upon the problems and the difficulties, the struggle during the late twenties and all through the thirties leading up to the enactment of this Act in 1939. I mentioned a moment ago the defects in the Money-Lenders Act in dealing with ancillary or related expenses, really interest under another name. That has been the root problem in legislation concerning consumer credit, to deal with the whole cost of the loan, not just

something that the lender or creditor may choose to call interest, but also with these ancillary or related expenses which are often just interest under another name.

Dealing with the Small Loans Act, or at least its background:

Even though the Interest Act had been on the statute books in one form or another since before Confederation and the Money-Lenders Act since 1906, the business of money-lending in Canada was for all practical purposes unregulated during the first quarter, or more, of the present century. Sporadic evidence of exorbitant charges began to appear more frequently and complaints multiplied. Much began to be heard of the "loan shark" in the daily press, magazines, moving pictures, etc.

One or two Dominion companies incorporated under the Companies Act were in the field but the great bulk of the business was carried on by provincially-incorporated companies, partnerships and individuals. Annual statements were not generally required to be published or filed, hence it was practically impossible to determine how many lenders were operating or the extent or nature of their operations.

Conditions in the personal loan field in the U.S.A. had likewise been unsatisfactory during the early part of this century but even before the First Great War the Russell Sage Foundation had begun its work in an effort to find a solution to the problem of the necessitous borrower lacking the customary forms of security acceptable to banks, etc.

The earliest attempts to solve the problem through loans made available by philanthropic agencies and the remedial loan societies proved inadequate and the conclusion was soon reached that the best solution would be by way of legislation specifically designed for this particular kind of business, legislation that would authorize adequate charges to assure the necessary facilities yet be the fairest possible to borrowers. This conclusion led to the drafting of a model bill in the U.S.A. in 1916 that subsequently became known as the Uniform Small Loan Law, including the requirement that interest and charges should be expressed as an all-inclusive rate per month not exceeding a stipulated maximum percentage of the balance of the loan outstanding from time to time,—

Senator THORVALDSON: May I ask a question with regard to the United States: is interest there a subject for the federal government, as it is in Canada, that is according to the constitution?

Mr. MACGREGOR: No sir, they are in the opposite position: interest falls within the jurisdiction of the several states. The model bill in the U.S.A. also made provision for the licensing and supervision of lenders by the State, with severe penalties for infractions of the law. This Uniform Law was enacted in substantially the same form, but with various maximum rates, by one State after another so that at the present time such laws are in force in nearly every state.

From here on, I hope you will bear with me, because it may be pretty tedious, but I would not weary you with these details if I did not think they were important.

In Canada, it may be said that regulation began in a limited way in 1928 with the incorporation of the first so-called small loans company, the Central Finance Corporation (now the Household Finance Corporation of Canada), by a special Act of Parliament (chapter 77). All comments that I shall make from here on for quite a while are mainly for the purpose of emphasizing the difficulty of enacting effective legislation unless one deals with the associated or ancillary charges as well as the so-called pure interest element.

This private Act in 1928 incorporating the Central Finance Corporation authorized the company to lend on personal security, subject to maximum charges as follows: Interest: (i) loans up to \$500, 6% per annum in advance, (ii) loans over \$500, 7% per annum in advance. Under another heading, for "expenses"; loans up to \$100, an additional charge of 1% in advance; for loans of \$100 to \$300, an additional expense charge of 1½ per annum in advance; and for loans over \$300, an additional expense charge of 2% per annum in advance. Since all of these charges could be deducted in advance, the actual annual rate was about double the apparent rate, being roughly 14% for a loan of \$100 and 16% for a loan of \$500. As there was no general Act in force at that time providing for supervision of companies of this kind, the Central Finance Corporation was made subject to the Loan Companies Act, with certain exceptions, and the power to take money from the public either on deposit or by the sale of debentures was withheld.

Within the year following incorporation, the company claimed that it could not operate on the scale of charges in its Act and in 1929 sought and obtained amendments authorizing charges of 7% and 2% in advance for interest and expenses, respectively, on all loans plus, in the case of a loan secured by a chattel mortgage, "an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan but not exceeding the sum of ten dollars". Obviously, the allowance of \$10 for chattel mortgages provided a very much larger percentage margin on the smaller loans and when the maximum permissible charges of all kinds were levied, the equivalent effective monthly rate varied from 5.71% for a \$50 loan repayable in twelve equal monthly instalments to 1.84% for a similar \$500 loan. This scale of charges is of special interest because it formed the basis of the general pattern followed by this and other similar companies for the next ten years, and also because it pointed up some of the difficulties of enforcing limitations expressed in this way.

In 1930, the second small loans company was incorporated by Parliament (chapter 68), being the Industrial Loan and Finance Corporation with essentially the same powers as contained in the Act of Central Finance as amended in 1929. This was followed by the incorporation of a third small loans company in 1933 (chapter 63), the Discount and Loan Corporation of Canada (now the Beneficial Finance Company of Canada). Since then there have been nine additional small loans companies incorporated by special Acts of Parliament, but only three of them are still in business. Most of the others never got started. There are thus six companies now that were incorporated by special Acts of Parliament.

The complicated scale of maximum charges in the special Acts of the three companies transacting business in the early thirties made it very difficult, if not impossible, for borrowers to understand the effective rate involved and it bore with undue severity on the very small borrower. Another difficulty arose through the tendency to charge borrowers the maximum \$10 fee for chattel mortgages whether disbursements were actually made or not; in one case, a sister company was incorporated to which was paid as a "disbursement" the entire chattel mortgage fee and expense charge received from the borrower.

Experience pointed to the desirability of a flat percentage charge monthly on the balance of principal outstanding, in place of the complicated scale authorized, and the first step in this direction was taken in 1934 when, by an amendment to the Loan Companies Act (chapter 56) an overriding ceiling of 2½% per month was placed on all charges by companies "incorporated or authorized by or under any Act of the Parliament of Canada and having power by virtue of any such Act to make loans of any nature or kind". The amend-

ment thus applied not only to the three special Act companies but also to the few other Dominion companies incorporated by letters patent under the Companies Act that were engaged in the small loans business.

The effect of the latter amendment, so far as Dominion companies incorporated by letters patent were concerned, was to reduce the maximum charges to $2\frac{1}{2}\%$ per month on all loans; and the effect, so far as small loans companies were concerned, was to reduce the maximum charges to $2\frac{1}{2}\%$ per month on all loans up to \$181.20, repayable in twelve equal monthly instalments, the effective rate for larger loans decreasing gradually to 1.84% at \$500.

The situation in the early thirties, therefore, was that Dominion companies were limited in their charges whereas other lenders were not. Moreover, the chattel mortgage fee was authorized only for disbursements actually made and one of the three Dominion small loans companies was operating mainly in the Province of Quebec where lending on the security of a chattel mortgage was impracticable since the Civil Code of that province required physical possession of the chattels to be taken by the creditor in order that the pledge be effective. As a consequence, this company was limited to a charge of 7% for interest and 2% for expenses, both in advance, as respects most of its business, such charge being equivalent to a monthly rate of only 1.48%. This company felt that its position was unfavorable in comparison with the other two companies operating mainly in the Province of Ontario, but it supplemented its revenue by requiring borrowers to insure their lives to the extent of their loans through the agency of the company, the premiums and the commissions being established at relatively high levels.

Further questions arose concerning the propriety of charging chattel mortgage fees to borrowers again when loans were refinanced, and there were complications involving refunds when loans were refinanced or prepaid by reason of the fact that charges were all deducted in advance. The entire situation continued to be unsatisfactory from almost every point of view.

By 1934, representatives of the small loans companies agreed at a meeting in the Department that the practice of deducting charges in advance should be abandoned in favor of a single monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time; by this time, too, the need for more effective general legislation governing the small loans business was becoming more and more apparent.

The whole subject engaged the attention of Parliament practically every year during the thirties and was dealt with at each session from 1936 to 1939.

In 1936, Bills to incorporate three new small loans companies were introduced but were not proceeded with pending further consideration of general legislation. In that year, a special subcommittee of the Banking and Commerce Committee of the Senate, to which the three private Bills had been referred, gave much attention to the whole problem and recommended general legislation based on the principle of a flat monthly rate on outstanding monthly balances but left the rate to be determined by the full committee. The first decision of the latter established the rate of $2\frac{1}{2}\%$ per month for loans up to \$100 and 2% per month for larger loans. However, representatives of certain provincially-incorporated companies contended that such rates would be insufficient to permit them to continue in business. The committee then decided upon a rate of $2\frac{1}{2}\%$ per month on loan balances of \$300 or less and 1% per month on loan balances above \$300, payments to be applied first to the repayment of the element bearing $2\frac{1}{2}\%$.

The draft bill with the final rates just referred to was recommended to the Government as a basis for general legislation but no action was taken, one of the main reasons being that the proposed rates exceeded the rates then being charged for the bulk of the loans made by the three small loans companies.

Perhaps I might mention here that it was at this time, 1936, that the Canadian Bank of Commerce inaugurated its Personal Loan Department.

In 1937, two of the three small loans companies introduced bills mainly for the purpose of substituting a more satisfactory scale of charges than they had in their special Acts. In one bill, a flat rate of $2\frac{1}{4}\%$ per month was proposed and, in the other, 2% ; later in the same session, the $2\frac{1}{4}\%$ rate in the former was voluntarily reduced to 2% also. The view of the department was that a rate of 2% was appropriate as an upper limit for all lenders but this was opposed by the third small loans company and by some provincially-incorporated lenders who claimed that they could not operate at that level; rates of 3% per month and even $3\frac{1}{2}\%$, at least for the smaller loans, were said to be essential. Both these bills were reported favorably by the Banking and Commerce Committee of the House but no further action was taken. The committee gave lengthy consideration to the whole problem and the prevailing thought was that the question of appropriate general legislation was of paramount importance.

Mr. BELL: What year is this?

Mr. MACGREGOR: 1936, 1937 and 1938.

In 1938, the same two bills were reintroduced but were not dealt with. Instead, attention was focussed on the need of general legislation. The Banking and Commerce Committee of the House studied the problem for months and heard witnesses from all over Canada and several authorities from the U.S.A. The committee's final Report No. 14, dated June 1, 1938, was accompanied by a draft bill entitled "An Act respecting Interest on Small Loans". A flat, all-inclusive, monthly rate of 2% on outstanding balances was recommended and the scope of the bill was limited to loans of \$500 or less. The committee's final report compressed in a few pages an excellent summary of the important aspects of the entire problem, together with the reasons underlying the rate recommended. I respectfully suggest the reading of this report by everyone studying the subject of small loans. I would draw attention particularly to the stated objective of the committee throughout its deliberations and which was emphasized in its report, namely, "to secure the best procurable rate for the borrower".

The report of the committee at that time also sets forth the constitutional basis upon which the Small Loans Act was enacted. I think it is one of the most useful reports and documents in connection with this whole subject that is available.

Opposition to the bill recommended by the committee (mainly to the maximum monthly charge of 2%) on the part of certain lenders delayed its passage, but it was finally enacted in substantially the same form in 1939 as "The Small Loans Act, 1939", with effect from January 1, 1940, and stood unchanged until 1956. Briefly, the amendments in 1956 to the Small Loans Act raised the so-called ceiling, that is the maximum loan to which the Act applies, from \$500 to \$1,500, and it substituted graded maximum rates for the previous flat rate of 2% per month. It is probably unnecessary to refer now to many of its provisions but perhaps attention might be directed to a few main ones.

(1) A "small loans company" is defined to mean a company incorporated by special Act of Parliament and authorized to lend money on promissory notes or other personal security and on chattel mortgages. In 1939 there were three such companies and there are now six.

(2) A "money-lender" is defined to mean any person other than a chartered bank who carries on the business of money-lending or advertises himself, or holds himself or itself out in any way, as carrying on that business, but does not include a registered pawnbroker. Apart from the few small loans companies,

all other licensees under the Act fall in this category, which mainly include provincially-incorporated companies, although there are still a few partnerships and individuals who were in business before the Act came into force.

Since then, all new licensees have been companies incorporated either by the Dominion or a province. If the former, it is by way of a special Act of Parliament; if the latter, it is usually by way of letters patent but at least one province also requires a special Act of the legislature. That is Manitoba. The distinction between a "small loans company" and a "money-lender" is thus the method of incorporation, i.e., whether by a special Act of Parliament or otherwise. This distinction is carried through all reports and other data published by the Department, as well as throughout the Act.

(3) The Act requires a lender to be licensed by the Minister of Finance if it wishes to charge more than 1% per month on a loan whose principal amount is not larger than \$1,500. If licensed, the maximum rate is 2% per month on the first \$300 of principal. 1% on the next \$700, and one-half of 1% on the next \$500 up to \$1,500. These graded rates are equivalent to an effective flat rate of 2% per month on a \$300 loan, 1.81% on a \$500 loan, and 1.48% on a \$1,000 loan, and 1.27% on a \$1,500 loan.

One justification for a relatively high rate on small loans is the relatively short term; a rate that is appropriate for a short-term loan becomes excessive if continued over an unduly long term. After expiry of the term of the loan, the Act provides for a maximum charge of 1% per month on any instalments unpaid. All loans are required to be repaid in approximately equal instalments at intervals of not more than one month each.

(4) One of the basic and most important principles in the Act is that the stipulated maximum charge includes all expenses and applies to the principal amount of the loan outstanding from time to time. Moreover, charges may not be compounded or deducted in advance. In other words, borrowers sign a note only for the amount of the loan actually received in cash and pay interest precisely on that amount for the actual time they have it, thus avoiding all of the problems that arise if charges are imposed when the loan is made and a refund of the unearned part is properly due the borrower in the event of refinancing or prepayment of the loan before the normal expiry date.

(5) The Superintendent of Insurance is required to inspect, at least once each year, the chief place of business of every licensee, and financial statements in prescribed form are required to be filed annually.

(6) Licensees under the Act may, and most of them do, make loans over \$1,500 and also engage in other branches of the consumer finance business as, for example, the purchase of conditional sale agreements from dealers, etc. These other activities are not presently regulated as to charges or otherwise by the Act.

The main justification for high rates of charges on personal loans is that the amounts are usually small and the periods relatively short. Many expenses, such as those for investigating the security, bookkeeping, etc., are substantially the same regardless of the size of loan and hence call for a high percentage charge when expressed in terms of a small amount, the percentage decreasing as the size of loan increases. One feature that must tend to reduce expenses in an established business is the frequency with which "current" or "repeat" borrowers return for additional loans since the security of these borrowers has already been investigated and their records have already been established. It is impracticable, because of the variables involved, to determine a scale of charges that precisely corresponds to the costs at every level.

The best that can be done is to adopt a scale that results in a reasonable degree of fairness to all borrowers. For loans up to \$500, approximately, a flat rate may be justified but for larger loans a graded rate is essential. It is unde-

sirable to have arbitrary breaks in the formula such as result from a flat rate for loans up to a certain amount, another flat rate for loans within a certain range beyond, etc. Instead, a formula of the kind in the present Act, which involves the application of graded rates to the successive tiers or layers of each loan, is generally more satisfactory. This kind of formula has been adopted in most states of the U.S.A., even for loans up to \$300 or \$500.

The determination of an appropriate scale of maximum rates is a most difficult problem and in some ways is almost an intractable problem because a rate that is adequate to enable most small lenders to make a profit results in most large lenders making inordinately high profits. The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities, especially for needy borrowers of small amounts, and yet of securing the best procurable rate.

Traditionally, the primary function of the small loans industry used to be to provide facilities for needy borrowers of small amounts. In fact the loans were almost always referred to as "remedial" loans. Now, however, instalment payment plans seem to be almost a way of life with a great many people. Consequently, the consumer loan business has become an integral part of the new pattern.

I think only those who lived through the trials and troubles of the late twenties and all of the thirties can fully appreciate the extent of the struggle at that time to develop suitable legislation to regulate personal loans. I would emphasize that this period proved one thing, if any further proof was needed in view of the United States experience, namely, that in this business the *whole cost* of the loan has to be controlled, not just some element that the lender chooses to call interest. In this connection I might refer to the definition of the "cost" of a loan in section 2 (a) of the Small Loans Act, which is all-inclusive, and I might say from personal knowledge that every one of the special kinds of charges referred to in that definition, every one of them is there because of some device or practice of a lender in the twenties or early thirties designed to circumvent interest legislation dealing with "pure" interest only.

Honourable members might also look at the definition of "loan" in paragraph (c) of section 2, which makes it clear that payments back and forth between lender and borrower at the time the loan is arranged must all be taken into account in ascertaining the effective amount, rather than the nominal amount mentioned in the contract itself. In other words, the whole Act is designed to get at the pith and substance of the transaction, not to deal just with the appearance of it.

I think a book could be written on the Small Loans Act alone, and it would take several days to cover the entire story. For example, when the Act was amended in 1956, hearings of the Banking and Commerce Committee of the House of Commons extended over two months or more, sometimes five days a week, and occasionally three times a day. It is perhaps sufficient to say that the Act has worked wonderfully well, and the whole level of the Small Loans business has improved greatly since 1939. The Act has been strictly but, I hope, fairly enforced, and we have enjoyed good co-operation from the licensees under it. Cases of charges exceeding the maximum have been very rare, and have usually been caused by mistakes.

Members may be interested in the extent of the business carried on by licensees under the Small Loans Act, and for this reason I have for distribution copies of our last complete report covering business for 1962, and in addition a so-called summary data sheet that gives all pertinent figures relating to

business transacted in 1963. The annual report is the blue-covered booklet, and the summary data sheet is this large white sheet. Without going into details, I think it could be said briefly that, although the volume of business transacted by licensees continues to increase, their share of the total personal loan business seems to be diminishing relatively to that of the chartered banks and credit unions. Furthermore, the apparent volume of new loans made by licensees is somewhat misleading.

Just to take a minute: if honourable members of the committee would look at the figures at the foot of the second column of figures to the right of the names of the various licensees, the column being headed "Small Loans Made, Number of Accounts and Amount"—running down towards the bottom of the page opposite 1963—it will be noted that licensees last year made small loans, that its loans up to \$1,500, in the amount of about \$770 million. Now that is the figure which, I say, is somewhat misleading, for this reason, that, out of \$770 million of new loans made in 1963, \$371 million went to repay outstanding balances of persons who already had loans. We call them "current" borrowers. Nearly half went to repay outstanding balances; in other words, people who had loans and who had repaid them partly, were back for a new loan.

Senator THORVALDSON: Does that mean they repaid them as a means of getting another loan?

Mr. MACGREGOR: That is right. Out of \$770 million of new loans made, 75% went to current borrowers, 371 million being used to repay outstanding balances, and \$197 million was advanced in cash. Now, \$59 million in cash went to previous borrowers who had completely repaid their loans; they were in the clear; and the remaining \$143 million went to brand-new customers, persons who had never previously had a loan, at least from the lender currently concerned.

So, in a word, the amount of cash advanced in 1963 was just about half the apparent amount of the new loans made; the other half went to repay outstanding balances.

Your question, Senator Thorvaldson, brings to mind one point which I think is worth mentioning now, namely, whether legislation of this kind is enacted by a national government or by a provincial or state government. In Canada the Small Loans Act is, of course, federal legislation, and we have one law applying to this kind of business right across the country. In the U.S.A. the situation is just the opposite. Interest falls within the jurisdiction of the several states, the small loans acts there are enacted by each state separately, and the result is that practically no two states have the same graded rates or the same maximum charges prescribed in their laws.

Now, one can easily imagine the advantages to lenders, the simplicity, the convenience, the economies of operating a business with one maximum rate or one set of graded rates applicable to the country as a whole, and that is one of the reasons why the maximum rates applicable in Canada to this type of business are the lowest on this continent. They are, I believe, lower than in any state of the U.S.A.

Mr. MACDONALD: In that connection, as I recall, there used to be an Ontario Money-Lenders Act, and it is very much of a small loans act. I understand there were negotiations between the federal and provincial governments, resulting in federal government legislation in this field. I wonder if I am right in that understanding?

Mr. MACGREGOR: The field is so complicated that it is difficult to deal with it concisely. Ontario did pass a Money-Lenders Act in 1912 which was the predecessor of the present Unconscionable Transactions Relief Act and which

provided for the licensing of money-lenders and so on. Naturally, when the Small Loans Act was under consideration by Parliament in 1937 and 1938 the views of the provinces were ascertained. Broadly speaking I think it can fairly be said that at that time everyone in the country was anxious that some government should do something to clean up this business, and although one or two of the provinces at that time expressed some reservations about the constitutional validity of the act that was proposed, the Small Loans Act, no one said they were going to oppose it, none did, nor has any since.

Mr. MACDONALD: There is no federal law relating to pawnbrokers; that is entirely left to the provincial acts?

Mr. MACGREGOR: No, there is the federal Pawnbrokers Act.

A MEMBER: Has the validity of the Small Loans Act ever been questioned in court?

Mr. MACGREGOR: There have been several prosecutions under the Small Loans Act, initiated by the department, where it appeared that some money-lender, usually an unlicensed lender, was carrying on business at rates of more than 1% per month. We have had only one prosecution of a licensed lender. All of these cases were tried in local magistrates' courts or county courts. While in one or two the question of jurisdiction was raised, no decision of any court yet has cast any reflection upon the Small Loans Act, unless it be the very recent decision of the Supreme Court of Canada, with which I should like to deal in some detail later on.

Mr. BELL: You said that most of the abuses have been mistakes? Will you explain what you mean by "mistakes"?

Mr. MACGREGOR: Just mistakes in the branch offices made by clerks. We have encountered the odd case where, after the maturity date of the loan, that is the date when the last instalment fell due, and some balance was still outstanding, and where under the Act the maximum rate from then on is 1% per month, occasionally, through oversight, the lender has continued to charge the graded rate, but these cases are so trivial I may have misled the Committee in referring to them at all.

Mr. BELL: Most of them are abuses?

Mr. MACGREGOR: I wouldn't even term them "abuses".

Mr. BELL: I am thinking of prosecutions.

Mr. MACGREGOR: All but one were unlicensed money lenders who, under the Act, without a licence may not charge more than 1% per month on the outstanding principal balance, but who in practice were charging more than 1%. Where we have encountered lenders who were unaware of the existence of the Act and it was clear that the practice was not extensive, was carried on through complete ignorance of the law, and where the lender has, of its own initiative, when the law was brought to its attention, immediately readjusted the accounts, made refunds and so on, we have not generally taken action against such lenders. However, we have had about ten cases over the years where action has been taken.

Rather oddly, there have been more in the last year than there were in the preceding five or more years. We have run into three cases in the last year where action had to be taken. In two cases they involved someone operating on the fringe of a large establishment of the armed forces, one in Ontario and one in New Brunswick. In a third case, an unlicensed lender made overtures looking to a license, and ultimately it appeared he had been charging more than an unlicensed lender is permitted to charge. In those circumstances, our first step is to visit the lender and see what the situation is. In this case, when we attempted

to do so, the lender refused our examiners entry, even though such entry is under the Small Loans Act. The case went to trial, and went against the lender. It was appealed and the appeal was dismissed. We are currently prosecuting him for charging more than the statutory maximum.

Co-Chairman Mr. GREENE: Is this mandatory provision re licence under section 5 decided in any of these cases? Is there any question about it?

Mr. MACGREGOR: It has never been the subject of any court case yet.

Mr. URIE: Is there any method by which you can ensure that only a few persons are carrying on contrary to section 5(1)?

Mr. MACGREGOR: Yes, there are, Mr. Urie, and interestingly enough, one of the means by which we get leads is through licensed lenders. Naturally, licensed lenders who become aware of unlicensed lenders carrying on business at higher rates than they should be, frequently let us know. Licensed lenders have been very co-operative in bringing these cases to our attention. I do not say that our leads come exclusively from licensed lenders or anything of that sort, but it isn't very difficult to become aware pretty early in the game of an unlicensed lender carrying on business at excessive rates.

Mr. URIE: Have there been any examples of retailers who have attempted to enter the field of money-lending in recent years? I understand there were a few years ago.

Mr. MACGREGOR: In administering the Act, from the outset, we have been very strict in granting licenses. We have ensured, as section 5 requires, that the Minister is satisfied that the experience, character and general fitness of the applicant are such, whether it be an individual or a corporation, that the applicant will, if granted licence, carry on business with efficiency, honesty and fairness to borrowers. We look into every application very carefully, and our policy from the start has been to restrict licences to those applicants who really intend to specialize in the small loans business, because we know, from experience both in Canada and the United States, the way this business can be carried on most efficiently and most fairly to borrowers.

A SENATOR: Not as ancillary to some other business.

Mr. MACGREGOR: That is correct. We have from the very start ensured that licences are not granted to used car dealers, store keepers and so forth.

Perhaps I didn't complete my answer to the question that you raised, Senator Thorvaldson, concerning any difference in the situation in Canada as compared with the United States of America. When I mentioned that we have in Canada the lowest maximum rates, I do not wish to suggest any undue kudos for that situation. There are other reasons why our licensed lenders can and do operate a small loans business at lower relative rates than in the U.S.A.

In Canada most of our licensed lenders carry on not only a cash loan business in the area up to \$1,500, but they also carry on a cash loan business above \$1,500 in the area which is unregulated, and many of them also carry on an associated sales finance business. So the earnings of licensed lenders as a whole in Canada are not derived solely from their small loans business. On the other hand, in the United States the practice varies a great deal. In several states the small loan companies are not permitted to operate above the loan ceiling, whatever it may be. It varies among the several states. In some states they are not permitted to carry on an associated sales finance business. Many are restricted solely to their small loans business.

I indicated a moment ago that the licensees under the Small Loans Act have lost a great deal of ground in recent years to the chartered banks in

the personal loan field and to the credit unions. Nevertheless, the volume of business conducted by licensees is still increasing, and the number of their offices in Canada is still increasing at quite a significant rate. The number of offices in Canada of all licensees—there are eighty-six of them at the present time—has increased from 1101 at the end of 1960 to 1574 at the end of 1963, or by 43% in the last three years. The number of licensees has only increased in the same period from 80 to 86.

I realize that much of what I have said so far is perhaps almost boring, but I thought it necessary to put on the record in some fashion the trials and tribulations leading up to the legislation we now have.

Senator THORVALDSON: May I say that Mr. MacGregor is far too modest. I think the story he has been giving us is most interesting and most informative.

Mr. MACDONALD: Hear, hear.

Mr. MACGREGOR: I think the committee would be particularly interested in knowing clearly the kinds of consumer credit business that our present federal legislation applies to; and I refer to the Interest Act and the Small Loans Act.

The Interest Act, although on its face it applies generally, as I have said earlier, is of little value as protection against exorbitant interest. In the main that Act applies to cash loans, and while conceivably some of its provisions may technically apply to sales finance contracts, I think the application of the Act to that particular area of the field is extremely limited.

Section 4 of the Interest Act does ensure the annual rate being stated where interest is payable monthly, otherwise only 5% can be collected. I may mention in this connection that we have never had any trouble in getting licensees under the Small Loans Act to state both the annual rate and the monthly rate in their contracts, because if they were not to do so all they could charge would be 5%. Consequently, even though some bills may have been introduced in Parliament to require small loans companies or licensees under the Act to state the annual rate in their contracts, there is really no need of such legislation, because they all do it now, and there is a good reason why they do it: if they didn't, as I say, they could not collect more than 5% per annum.

I might say also that all licensees give the borrower a copy of the loan contract—something that many other lenders do not seem to do, including perhaps the chartered banks. Every borrower from a licensee under the Small Loans Act gets a copy of the contract where the cost is spelled out, both on a monthly basis, and annually.

I am afraid that section 4 of the Interest Act is of no value for either cash loans or conditional sale agreements where the charge is expressed in the contract on an annual basis or as a lump sum.

The Small Loans Act is completely effective in controlling costs of cash loans up to \$1,500, but it has no application to the field of cash loans above \$1,500 or to conditional sale agreements in any amount.

If I may take just a minute, perhaps I could clarify or remove some confusion that I sometimes observe in knowing what kind of credit business is carried on by different kinds of credit granting organizations. In other words, what are the main sources of consumer credit, and by what names are they called?

First, small loans companies or personal loan companies. They are one kind of so-called finance companies. Most of them have the word "finance" in their name. Small loans companies and other licensees under the Small Loans Act, all make cash loans and some of them also purchase time-sales paper from stores and dealers. Only their loans up to \$1,500 are regulated.

Sometimes a small loans company is confused with a loan company, especially since we have on the federal statute books, and have had since 1914, the Loan Companies Act. The Loan Companies Act was designed to regulate the operations of real estate mortgage lenders. There is no stated maximum cost of a loan in that Act, but in practice all of these mortgage loan companies—I speak for the Dominion companies—do not charge excessive rates; they operate in the first mortgage field, and they usually charge moderate and acceptable rates. They are not engaged in the second mortgage field or those fringe areas where one has heard so much criticism of high charges. The main characteristic of a loan company operating under the Loan Companies Act is its power to lend on the security of real property, and those companies have no power to lend on personal security. The position of the small loans company is just the opposite; they have the power to lend on personal security, and that is their main field of operation, but they usually have no power to lend on real property.

Co-Chairman Mr. GREENE: Some have both.

Mr. MACGREGOR: Only a few provincially incorporated companies. Most of the companies licensed under the Small Loans Act do not have the power to lend on real estate.

Co-Chairman Mr. GREENE: Is it an offence under the Act if they so operate in both spheres?

Mr. MACGREGOR: I would say that they would exceed their chartered powers. The situation in Ontario, for instance, is substantially the same as in the Dominion field. If a company wishes to be incorporated in Ontario as a prospective licensee under the Small Loans Act, the provincial authorities will include in the objects and powers of the company as set forth in its letters patent exactly the same powers as provided under section 14(1) (a) of the Small Loans Act; and in some letters patent that we have examined of licensees, pertaining to Ontario companies, there is a proviso stating specifically that the company shall not carry on the business of a loan company within the meaning of the Ontario Loan and Trust Corporation Act.

Mr. MACDONALD: That is a special provision in the Corporation Act for a private company with a very limited membership to loan exclusively on the security of real estate. The provision is that no corporate body shall loan on the security of land as part of its primary business without registration and incorporation under the statute but this does not, of course, prevent a normal commercial company from engaging in a loan on real estate as an ancillary part of its business, but if it is found that its primary business is lending on land, and it is not authorized, of course it is subject to forfeiture.

Mr. MACGREGOR: Now just a word as to acceptance companies. Acceptance companies are, in general, companies operating exclusively or almost exclusively in the sales finance field buying conditional sale agreements and other forms of time-sales paper from dealers.

In the consumer credit field, there are also the credit unions, which operate exclusively under provincial legislation, and in many of the provinces credit unions are restricted to charging not more than one per cent per month. Incidentally, I am not aware that that legislation has ever been challenged, Mr. Chairman, on the ground that the provinces lack the authority to legislate in relation to interest but it is rather unusual that legislation in several of the provinces has dealt specifically with that aspect. The credit unions are very active at present in the cash loan business.

Senator THORVALDSON: The Act does not touch on their jurisdiction at all?

Mr. MACGREGOR: The credit unions are not specifically excepted from the Small Loans Act. However, the Small Loans Act requires a lender to be licensed only if he charges more than 1% per month on the outstanding balance, and the fact is that the credit union do not, by practice or by reason of the provincial laws, charge more than 1% per month.

The chartered banks have also been in the personal loan business in a significant way since 1936, when the Canadian Bank of Commerce entered the field, and they extended operations into this field greatly following the amendments to the Bank Act in 1954, when they were given the power to lend on chattel mortgages. So far as maximum cost is concerned, in the case of loans made by the chartered banks, section 91 of the Bank Act limits the maximum rate of interest or discount to 6% per annum. However, section 93 authorizes the bank to make charges for maintaining an account for a customer.

Sub-section (2) of section 93 says that "no bank shall directly or indirectly charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer." But there is no limit mentioned on the amount of the charge that may be made. In practice the banks generally charge a rate of interest under section 91 not exceeding 6%, and an additional expense charge for maintaining an account, under section 93. The two together result in an effective annual charge, at least as far as loans up to \$1,500 are concerned, running from 9.8% to 11.6% per annum.

Mr. ORLIKOW: I wonder if I can ask, do the banks follow the practice of showing the customer a separate amount?

Mr. MACGREGOR: I don't believe they do, sir. I have obtained copies of the forms used by most of the chartered banks, and I may say that in the main I think the borrower is left far from clear as to the effective annual charge.

Co-Chairman Mr. GREENE: Have the banks been violating section 93 of the Bank Act?

Mr. MACGREGOR: No, apparently not. The opinion of the Deputy Minister of Justice was tabled in the House of Commons about a year ago, to the effect that what the banks are doing is within their powers under section 93.

Mr. ORLIKOW: The opinion given was that the amount they are charging is within their right, but the question I was trying to have answered is, are they living up to the provision which, as read to us, would seem to indicate that the borrower, the customer, should be informed of the amount of interest on the loan, that is 6%, and the charges for the other things which are permitted as a certain other amount.

Mr. MACDONALD: They just give you a document and say "Sign here", and you sign, and you are under section 93 without any further argument.

Mr. MACGREGOR: I think the banks are ostensibly limited to 6% per annum, but on personal loans they are obtaining a yield varying from about 10% to over 11% per annum.

A MEMBER: Just in connection with Mr. Orlikow's question, is there a specific requirement in section 93 that they disclose the amount of any charges to the borrower?

Mr. MACGREGOR: Sub-section (2) says that "no bank shall directly or indirectly charge or receive any sum for the keeping of an account unless the charge is made by express agreement between the bank and the customer." I think that may be interpreted as meaning that as long as the customer signs the agreement the bank may make a reasonable charge.

Co-Chairman Senator CROLL: This was discussed thoroughly in 1954, when the Bank Act was revised, and at that time an opinion was obtained from Justice, and the inspector of banks agreed that they were within the law in doing what they did under the section.

Mr. MACGREGOR: It is a little hazy in my mind at the present time, but I think in 1954 the subject that was under consideration then was the particular practice that the Canadian Bank of Commerce had followed since 1936. It was not making an additional charge for maintaining an account, it was merely charging 6% in advance, and then, when the instalment payments were made by the borrower, they were deposited in a savings account to which some interest was allowed. I think the net annual effective rate worked out to be a bit over 10%. There is quite a variety of details amongst the banks now but most of them follow the general practice of making an expense charge in addition to interest.

Co-Chairman GREENE: I would like to be clear in your statement on section 93 to Mr. Orlikow. Section 93 (2) says that no charges may be made for keeping an account except by express agreement, but I take it that in your opinion the bank interprets that express agreement to mean that the charge must be clearly indicated by annual interest?

Mr. MACGREGOR: I would not like to express a definite opinion on any section of the Bank Act. In mentioning sections 91 and 93, all I had in mind was to draw to the attention of the Committee the means by which the banks do charge more than an effective rate of 6% per annum on personal loans. However, I shouldn't like to speak about the proper interpretation of any section of the Bank Act, because we have no responsibilities in connection with banks or the Bank Act.

Just to complete the picture of the various kinds of organizations that are offering consumer credit facilities, at least in the form of cash loans, I might also mention the life insurance companies. They, of course, make cash loans secured by their policies. About 5% of the total assets of Canadian life insurance companies is in the form of cash loans. One may wonder or ask what limitations the life insurance companies are under so far as maximum charges are concerned on personal loans of this kind. There is nothing in the Insurance Act limiting the rate of interest. In practice, however, the companies put a maximum rate in their policies. Usually it is 5 to 6%. 6% has been the main rate. In some older policies 7% was sometimes mentioned as the maximum rate, and in some cases about thirty or forty years ago an additional expense charge of 2% or 4% was also provided for. Back in 1934 a member from Alberta—Mr. Coote as I recall—introduced a private bill designed to limit the maximum rate on policy loans made by life insurance companies to 4% per annum. As a result of considerable discussion, the life insurance industry, through the Canadian Life Insurance Officers Association, gave the government an undertaking that thereafter life insurance companies in Canada, members of the Association, would not charge an effective rate on policy loans exceeding 6% per annum. So, ever since 1934, 6% per annum has been the maximum rate that life insurance companies have charged on policy loans.

Up to this point I have dealt mainly with cash loans. In addition, there is of course a very broad area of consumer credit relating to time-sales in one form or another. The conditional sale agreements and other agreements made by dealers of all kinds are usually purchased by an acceptance company, which then collects from the purchaser. Broadly speaking, this latter field is not controlled by legislation at the present time at all, certainly not as far as Dominion legislation is concerned, and only to a limited extent by provincial legislation.

Various provinces have, of course, conditional sales acts, but few of them restrict the cost. Only Quebec, to my knowledge, restricts the cost. Quebec passed an act in 1947 entitled "An Act Respecting Instalment Sales", which has since been amended, and it deals with down payments and periods for payment, and even with cost. However, the Quebec act applies only to purchases up to eight hundred dollars and not at all to certain articles such as automobiles.

It is rather interesting that in the section where it restricts the finance charge, it refers to the maximum finance charge as being "in lieu of the interest and compensation for the risks, losses and additional administrative costs which may result to the seller by the sale of the instalment plan". I do not think that that provision has ever been the subject of a court reference, but on the face of it, it does appear to come very close to legislation in relation to interest, although it describes these charges as being "in lieu of interest". In other words, it gives them another name.

Senator THORVALDSON: I think Mr. MacGregor is aware that some of the Western Provinces—for instances, Manitoba—have recently passed legislation on the subject of consumer credit. I presume we will have that before us in due course.

Mr. MACGREGOR: To summarize my views, Senator Thorvaldson, I think only Quebec—I am speaking of conditional agreements, the time sales field—only Quebec has set a maximum cost. A few other provinces have required disclosure of the cost without fixing a maximum. Alberta has since 1954 in its Credit and Loan Agreements Act. Manitoba has, I think, just within the last year or two in its Time Sale Agreement Act. New Brunswick, in its Conditional Sales Act, as far back as 1927, had provisions dealing with down payments, the maximum term of payments, and so on, but nothing about maximum costs. The trend, particularly in the light of the recent Supreme Court decision concerning the Ontario Unconscionable Transactions Relief Act, is for the provinces to pass more legislation requiring disclosure of the costs, and also to enact legislation similar to that of Ontario providing for relief from unconscionable transactions.

I would say that, in a word, even at the present time the whole conditional sales field is pretty much un-regulated, certainly as far as maximum cost is concerned.

There are three ways in which the cost of consumer credit may be dealt with in legislation. Perhaps there are more, but there are three main ways. The first is legislation designed to control the cost, fix maximum rates of cost, and so on. One would think on the face of it that legislation of that kind would fall almost exclusively within Federal jurisdiction.

Secondly, there might be legislation of the disclosure type, without fixing any maximum, requiring that, whatever the cost is, it be revealed in the contract. Expressing a purely personal opinion on that kind of legislation, it would seem that it might fall within either or both of federal and provincial jurisdiction. One would think that if the disclosure type of legislation includes control of the cost, it would fall within federal legislation. We have had it in the Interest Act—a combination of control and disclosure—for years and years. On the other hand, if it is disclosure pure and simple, I would be reluctant to express any very firm opinion. Perhaps one might go as far as to say that it seems as though it might be or ought to be within federal jurisdiction to require disclosure at least in the contract. To go beyond that, I think, involves considerable doubt, as for example to require the cost to be set forth in advertising.

I recall that, when the Small Loans Act was amended in 1956, the Deputy Minister of Justice was asked specifically for his opinion on a bill then before Parliament, introduced by Mr. Colin Cameron, which had for its purpose requiring small loan licensees to specify the cost of their loans in their advertising. Mr. Varcoe at that time, as I recall, expressed the view that it would be beyond the jurisdiction of Parliament.

The third type of legislation is, of course, that designed to permit a court to reform an unconscionable or a harsh contract. Some provinces, notably Ontario, have had legislation of that kind on their books since 1912. Manitoba has had somewhat similar provisions in its Mercantile Law Amendment Act for several years. Nova Scotia has also had a somewhat similar act, or provisions, in its Money-Lenders Act for many years. None of these acts was ever challenged on constitutional grounds until recently in Ontario.

And that leads me to a final matter that I had intended to deal with, Mr. Chairman, involving the recent decision of the Supreme Court of Canada concerning the validity of the Unconscionable Transactions Relief Act of Ontario.

Co-Chairman CROLL: In view of the hour—I presume the committee will go along with this suggestion—suppose you leave that aspect until next week. By that time we will have the minutes; and you can then subject yourself to questions of the members.

The committee then adjourned.



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 2

TUESDAY, JUNE 9, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

Department of Insurance:

Mr. K. R. MacGregor, Superintendent.

Mr. H. A. Urquhart, Administrative Officer.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Holleth
Irvine

Lang	Smith (<i>Queens-Shel-</i>
McGrand	<i>burne</i>)
Robertson (<i>Kenora-Rainy</i>	Stambaugh
<i>River</i>)	Thorvaldson
	Vaillancourt—12.

Messrs.

Bell
Cashin
Chrétien
Clancy
Coates
Côté (*Longueuil*)
Crossman
Deachman

Drouin
Greene
Grégoire
Hales
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Pennell
Ryan
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; and to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint their Honours thereof.”

LÉON-J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report, as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, June 9th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw, Hollett, Irvine, McGrand, Robertson (*Kenora-Rainy River*), Stambaugh, Thorvaldson and Vaillancourt, and

House of Commons: Messrs. Greene (*Joint Chairman*), Clancy, Hales, Macdonald, Mandziuk, Marcoux, McCutcheon, Nasserden and Ryan. 18

In Attendance: Mr. John J. Urie, Q.C., Counsel and Mr. Jacques L'Heu-reux, C.A., Accountant.

The Committee proceeded to the consideration of the Order of Reference.

The following witnesses were heard and questioned:

Department of Insurance:

Mr. K. R. MacGregor, Superintendent.

Mr. H. A. Urquhart, Administrative Officer.

At 12.15 p.m. the Committee adjourned until Tuesday, June 16th, 1964, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, June 9, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10:00 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Mr. Greene will be a little late. He called me this morning. He is at another committee.

When we adjourned last week Mr. MacGregor was our witness, and he was to continue with the case that he had before him at the time. This will take a little time this morning.

Mr. HALES: Mr. Chairman, before you proceed with our witness Mr. K. R. MacGregor, at the last meeting I asked some questions concerning help that we had employed for this committee, and I was advised that Mr. John Urie was hired on the basis of \$250 for a seven-hour day, plus \$25 for preparation per hour; and Mr. Jacques L'Heureux, an accountant on the basis of \$100 for a seven-hour day with \$20 per hour for preparation.

I would like to ask, was the steering committee consulted regarding the hiring of these people?

Co-Chairman Senator CROLL: Yes.

Mr. HALES: The steering committee was duly called?

Co-Chairman Senator CROLL: Oh yes.

Mr. HALES: And the steering committee was consulted.

Co-Chairman Senator CROLL: Every steering committee member was spoken to.

Mr. HALES: There was a meeting called of the steering committee?

Co-Chairman Senator CROLL: Yes, there was a meeting called of the steering committee.

Mr. HALES: And they did the hiring?

Co-Chairman Senator CROLL: Yes, it was by majority vote.

Mr. HALES: And who had the say as to the names of the people that would be hired?

Co-Chairman Senator CROLL: The names were presented to them, and I and Mr. Greene did preliminary work on finding who was available.

Mr. HALES: In other words, you advised the steering committee that these people had been hired?

Co-Chairman Senator CROLL: No, no. We told them they were available and recommended it.

Mr. HALES: Who set the rate of pay?

Co-Chairman Senator CROLL: We checked with the Department of Justice.

Mr. HALES: For the rate of pay?

Co-Chairman Senator CROLL: That was the going rate.

Mr. HALES: And what appropriation will this salary be paid from?

Co-Chairman Senator CROLL: I don't know.

Mr. HALES: Salaries, I should say.

Co-Chairman Senator CROLL: I cannot tell you the appropriation but there is an appropriation available. The Minister of Justice was spoken to. He said there would be an appropriation available.

Mr. HALES: It seems rather an exorbitant fee, because I know that the Department of Citizenship and Immigration has done a lot of hiring of legal advice at \$100 per day, and this amount of \$250 per day seems very outrageous, in my opinion. I don't know what the rest of the committee feel but I think it is an exorbitant amount to pay.

You know what my feelings were in the first place. I thought that it was not necessary that we have them; that the committee is composed of fifty per cent lawyers anyway, and we are all being paid a salary to be present and to be at committees as members. I could not see why it was necessary in the first place. However, there was a vote taken and we agreed to hire legal aid. This has been done, and I just want to raise my objections to paying this kind of taxpayers' money for this particular purpose. I want to go on record in that regard.

If this type of operation continues, the Consumer Credit Committee is going to have to get some consumer credit to pay their bills. I would just like to express my views. Maybe others on the committee want to express their views before we resume with our witness.

Senator THORVALDSON: I could just add, Mr. Chairman, that I was present in committee when it held its organizational meeting, and I personally raised strong objection to the necessity of hiring any help for this committee. I just want to add my voice to what Mr. Hales has said in that regard.

Also I understand that we have an office in the West Block where this committee has a full-time secretary, and I sometimes wonder what such a person has to do really, because the work of our committees is handled, as I understand it, by our committee staff who do our work, certainly in regard to most committees, very ably and efficiently.

That is all I have to say on this. I certainly want to associate myself with the remarks of Mr. Hales, because I objected to this procedure right from the start.

Mr. MACDONALD: Mr. Chairman, I would like to go on record as being against the remarks of both Mr. Hales and Senator Thorvaldson. This is a very important committee, and we will be, in the course of our hearings, hearing from witnesses representing most of the major finance institutions in Canada who will, in the course of this hearing, probably pay for very high-priced legal talent indeed. I think we would be derelict in our duty to the Canadian people if we did not make sure that this committee had the necessary and fully-qualified staff for the purpose of eliciting from those witnesses when they appear and through their counsel the basic facts with regard to consumer credit.

I do not question the fact that there are lawyers on the committee, and therefore they could handle it. But I would submit they do not really go after the question; the lawyers in the committee are not going to indulge in the very extensive research that may be required. For one thing, the lawyers who are members of the Senate and House of Commons do not have the time to indulge in very extensive research.

I think that it is entirely sound and entirely businesslike to get first-class counsel and have the benefit of first-class counsel available for this committee.

Co-Chairman Senator CROLL: Gentlemen, I think you will see that after Mr. MacGregor gives evidence and we hear from the Bank of Canada, there will be an overwhelming necessity for having counsel and an accountant available.

Mr. HALES: One more question. Will these men be here for every meeting, or will they be at the call of the committee or the steering committee?

Co-Chairman Senator CROLL: It was thought they would be here at every meeting, depending upon what happens, but certainly we need them in the preliminary meetings.

Mr. HALES: Well, I would think, Mr. Chairman, that they would be necessary only when we have witnesses here that have to do with their particular line of work.

For instance, last meeting and this meeting, I would not think it would be necessary to be paying this amount of money.

Co-Chairman Senator CROLL: Mr. Hales, the last meeting was one of the more important meetings we will ever have of this committee, and this meeting and the next meeting, because at that time we will have to assess as to where we go, and they were essential for these meetings. Later on there may be something to what you say, and we can determine whether we can completely do without them.

Mr. HALES: It does not give too much credit to the lawyers and those present who have had experience in this field. I am not a lawyer, but I can speak for them. It would seem to me that this committee would be quite capable of examining the witnesses up to the point where we get into technicalities.

Co-Chairman Senator CROLL: We will keep that in mind. Would you proceed, Mr. MacGregor.

Mr. K. R. MacGregor, Superintendent of Insurance: Mr. Chairman, Honourable Senators and honourable members, when I appeared before this committee a week ago, I tried to emphasize—perhaps to the point of being wearisome—that experience in the U.S.A. and in Canada prior to the passing of the Small Loans Act in 1939 had abundantly proved the impossibility of legislating effectively in the small loans field except on the basis of dealing with the *whole* cost of the loan. All other piecemeal approaches, based on legislating in respect of some so-called “pure interest” element, failed to be satisfactory, even when something specific was said about certain other charges under a different name. The fact is that to a lender, the name given to compensation or profit is immaterial. To paraphrase the rose: “Interest by any other name would smell as sweet”. I believe that the same applies to any segment of the consumer credit field. Consequently, in my opinion, if it is desired to legislate effectively so as to control or limit the cost of consumer credit, then the legislation must deal with the whole cost—not merely some element that the lender or creditor may choose to call interest.

All of this was clearly recognized by the Banking and Commerce Committee in 1938 after its lengthy study of the small loans business, and its conclusions are succinctly stated in its Report No. 14 dated June 1, 1938. Clearly, if legislation is to be effective, it would not be possible to circumvent it by calling interest by some other name. The result was that “cost” of a loan was defined in the Small Loans Act in this broad way, and I quote:

"cost" of a loan means the whole of the cost of the loan to the borrower whether the same is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage and recording fees, fines, penalties or charges for inquiries, defaults or renewals or otherwise, and whether paid to or charged by the lender or paid to or charged by any other person, and whether fixed and determined by the loan contract itself, or in whole or in part by any other collateral contract or document by which the charges, if any, imposed under the loan contract or the terms of the repayment of the loan are effectively varied.

So also, to remove any doubt about what constituted the principal amount of a loan, the word "loan" was also defined as follows, and I quote:

"loan" means a loan made by a money-lender of not more than fifteen hundred dollars and includes the consideration for a wage assignment; and if, after deducting all payments whether on account of interest, expenses or principal, made by the borrower to the money-lender at or about the same time as a loan is made, the amount retained by the borrower is fifteen hundred dollars or less, the transaction or transactions shall be deemed to have resulted in a loan of the amount so retained by the borrower notwithstanding that nominally a loan for a larger sum has been made.

These two definitions got at the pith and substance of the loan agreement, namely, the amount of cash actually received by the borrower and then related the whole cost to that amount or such part of it as remains outstanding from time to time until the entire amount is fully repaid. This is the main reason why this act has proven so effective and most other legislation respecting interest has been ineffective.

Now, by reason of the variety of names under which and the variety of ways in which charges may be imposed for consumer loans—interest, discount, bonus, premium, deduction from advance, commission, fees, charges for this or that, etc.—the question has sometimes arisen whether the Dominion or the provinces, or both, have jurisdiction. Under the B.N.A. Act, item 19 of section 91 gives Parliament the exclusive right to legislate in relation to "Interest". On the other hand, section 92, item 13, gives the provinces the exclusive right to legislate in relation to "Property and Civil Rights in the Province". Occasionally, it has been contended that Parliament may legislate only in relation to so-called "pure interest" and that legislation respecting other charges falls within the provincial domain.

Sometimes, I think that persons putting forward the latter view overlook the true and full nature of interest. Interest traditionally comprises not only compensation for the use of capital but also compensation for the risk of losing the capital in whole or in part. That is, of course, why the amount or rate of interest varies with the risk. If one examines most of the other charges often named along with interest, whether for investigations or for appraisals, fees for preparing a chattel mortgage or registration, etc., it will be realized that these are invariably for the purpose of better securing the loan, i.e., of reducing the risk of loss to the lender, and, where required to be paid by the borrower, are in essence a form of compensation to the lender and therefore interest.

Since the Constitution gives Parliament the exclusive right to legislate in relation to "interest," it must surely be assumed that this was intended to convey real power in this field and not to be nugatory; that it should not be possible for anyone to defeat this intention by giving interest some other name or charging it through some device indirectly rather than directly. There is a very good summary of the subject of interest and of the constitutional basis of the

Small Loans Act in the 1938 report of the committee to which I have already referred, more particularly at pages 421-2-3. The comments at the foot of page 422 might be noted in reference to the situation in England, where it is stated in part:

It is noteworthy in this connection that, in England, parliament, when legislating respecting loan societies and money lenders, found it necessary to prohibit the making of charges for expenses (Money Lenders Act, 1927, s. 12, and Loan Societies Act, 1840, s.23) and in the Money Lenders Act of 1900, excessive interest charges and excessive expenses were treated as equivalent grounds for setting the contract aside.

Furthermore, I believe that in England, interest is interpreted in a broad way to include discount, bonus or premium in reference to the principal of a loan or a money debt.

In my view, if a debtor is required to pay the creditor compensation for the use of capital or for delay in paying a debt, or to make payments which are essentially for the purpose of reducing the risk of loss to the creditor, all such compensation and payments may reasonably be considered to fall under the general heading of "interest" for legislative purposes.

I should like to make a few additional remarks here about the manner in which interest may be paid. Although the usual practice is to state the amount on the basis of a rate per centum, interest may also be arranged to be paid in an absolute amount, in advance or in arrears, regularly or irregularly, frequently or otherwise. Incidentally, discount is in essence interest in advance and a so-called "bonus" is invariably additional interest or additional discount under another name. As an example of how interest may be paid in an absolute amount at the end of the term of the loan, rather than annually or regularly on the basis of a rate per centum, I might simply mention the sale of War Savings Certificates during the last war when the purchaser lent \$4 to the Government and received \$5 in return after 7 years. The difference, amounting to \$1, represented interest on the \$4 loan for the whole term of the loan. Call it what one likes—interest, bonus, premium, etc., it was still, in pith and substance, interest.

My reasons for taking the time of the committee to make the foregoing remarks were to indicate my own views, as an actuary and administrator of the Small Loans Act, concerning the nature of interest and the presumed powers of Parliament to enact legislation to control the whole cost of a loan, all in the light of a recent decision of the Supreme Court of Canada concerning the Unconscionable Transactions Relief Act of the Province of Ontario, R.S.O. 1960, chapter 410. I have found this decision so unsettling and so confusing that I feel compelled to take some further time to discuss it. It is not so much the decision itself that troubles me as the reasons given for the decision and the statements made concerning the nature and meaning of interest.

It is unnecessary, for present purposes, to go into details about the original case that led up to the decision of the Supreme Court of Canada. Suffice it to say, that one Ralph Douglas Sampson obtained a real estate mortgage loan from Barfried Enterprises Limited of Guelph, Ontario, on or about September 3rd, 1959, under a contract which he later regarded as constituting an unconscionable transaction. Accordingly, he sought relief by having the contract set aside and revised under the Ontario Unconscionable Transactions Relief Act, which was granted by the County Court of the County of Wellington on February 1, 1962. Subsequently, Barfried Enterprises Limited appealed the County Court action to the Court of Appeal of the Supreme Court of Ontario on the grounds that the act in question was beyond the competence of the Ontario Legislature to enact; more specifically that such act was *ultra vires*

for the reason that it deals in pith and substance with the subject matter of "interest" which by section 91(19) of the B.N.A. Act is expressly reserved to the Parliament of Canada.

The Unconscionable Transactions Relief Act of the Province of Ontario had of course been on the books in Ontario since 1912 when it was originally enacted as The Money-Lenders Act. I mentioned that at the last meeting.

Senator THORVALDSON: Was this a re-enactment of the 1912 act in exact terms or were there some changes in it?

Mr. MACGREGOR: No, Senator. Along in the 1940's after the Small Loans Act was passed, Ontario deleted certain provisions relating to the licensing of money lenders etc., but the provisions relating to unconscionable transactions were not changed at that time, as I recall.

The decision of the Ontario Court of Appeal, rendered on October 16, 1962, was that the Unconscionable Transactions Relief Act of Ontario was beyond the province's legislative competence to enact. Perhaps I might quote a few excerpts from that decision. This is the judgment of the Court of Appeal of the Province of Ontario.

Co-Chairman Senator CROLL: Unanimous, was it?

Mr. MACGREGOR: Yes. It reads, in part:

Reading the Ontario statute in its entirety, as it must be read, what is its true nature and character, or its pith and substance? To ascertain this it is the substance rather than the form of the legislation which must be regarded. Notwithstanding.

and there are then some irrelevant comments,

the inescapable conclusion is that 'its true nature and character' is legislation in relation to interest.

The statute is applicable to only one kind of contract—a money-lending contract. Its essential purpose and object is to provide a remedy to a borrower to enable him to have the terms of such a contract modified. The end result of an application to the Court in accordance with its provisions, if the borrower is entitled to succeed, must be that the interest in the broad sense of that term, payable as compensation for the loan will be reduced. It matters not, in my opinion, whether this result is achieved through the intervention of a Court order or through the operation of a provision in the Act itself fixing a stated rate or scale of interest. In either case it is unquestionably legislation in relating to interest under the pith and substance rule, and, in my opinion, clearly invalid as an infringement of the exclusive legislative power committed to Parliament. Moreover, it is in direct conflict with the provisions of section 2 of the Interest Act, R.S.C. 1952, Cap. 156. Accordingly, it is beyond the province's legislative competence to enact.

I am still quoting:

It is not without regret that I reach this conclusion for, in my opinion, The Unconscionable Transactions Relief Act of Ontario is salutary legislation which has served a very useful and necessary purpose. Some relief is afforded to borrowers by the Federal Small Loans Act, R.S.C. 1952, Cap. 251, as amended by 4-5 Eliz. II, Cap. 46, but, as previously stated, it is limited in its application to loans of not more than \$1,500.00. Whether its scope ought to be enlarged is a matter which must be left to the good judgment of our duly elected representatives in Parliament assembled.

This was a quotation from the judgment of the Ontario Court of Appeal.

Senator THORVALDSON: May I ask one question. Was there only one judgment written or was there more than one judgment?

Mr. MACGREGOR: There was only one judgment written, senator, and it was concurred in by all four other members of the Court.

Senator THORVALDSON: Who wrote the judgment, would you mind telling me?

Mr. MACGREGOR: Mr. Justice Schroeder. This judgment of the Ontario Court of Appeal was unanimously concurred in by the five members of that Court who heard the case, including the Chief Justice of Ontario. However, such decision was in turn appealed to the Supreme Court of Canada by the Province of Ontario, with the support of the Province of Quebec as intervenant, and on December 16, 1963, the Supreme Court of Canada reversed the decision of the Ontario Court of Appeal by five to two. Of the five Justices reversing the previous decision, four—including the Chief Justice—joined in a majority opinion while one other gave a separate opinion on the same side. It is the majority opinion that I should like to discuss since it is conceivable that it might have far-reaching effects; in fact, far beyond what I think is justifiable.

Perhaps I might have quoted the pertinent sections of the Unconscionable Transactions Relief Act earlier, but I thought that they might be more clearly in mind if given now.

The main section is section 2, which reads as follows:

2. Where, in respect of money lent, the court finds that, having regard to the risk and to all the circumstances, the cost of the loan is excessive and that the transaction is harsh and unconscionable, the court may,
 - (a) re-open the transaction and take an account between the creditor and the debtor;
 - (b) notwithstanding any statement or settlement of account or any agreement purporting to close previous dealings and create a new obligation, re-open any account already taken and relieve the debtor from payment of any sum in excess of the sum adjudged by the court to be fairly due in respect of the principal and the cost of the loan;
 - (c) order the creditor to repay any such excess if the same has been paid or allowed on account by the debtor;
 - (d) set aside either wholly or in part or revise or alter any security given or agreement made in respect of the money lent, and, if the creditor has parted with the security, order him to indemnify the debtor.

The Ontario statute defines "cost of the loan" as follows:

"Cost of the loan" means the whole cost to the debtor of money lent and includes interest, discount, subscription, premium, dues, bonus, commission, brokerage fees and charges, but not actual lawful and necessary disbursements made to a registrar of deeds, a master or local master of titles, a clerk of a county or district court, a sheriff or a treasurer of a municipality;

The issue in the appeal to the Supreme Court of Canada was to determine whether the Unconscionable Transactions Relief Act is essentially legislation in relation to civil rights within the jurisdiction of the province under section 92(13) of the B.N.A. Act or essentially legislation in relation to interest within the jurisdiction of the Dominion under section 91(19).

The majority judgment of the Court was that it is not legislation in relation to interest but legislation relating to annulment or reformation of contract on the grounds set out in the Act, namely, (a) that the cost of the loan is excessive, and (b) that the transaction is harsh and unconscionable.

It will be noted that the Act applies only to money-lending contracts; and in order to invoke relief under the Act, the cost of the loan must be shown to be excessive *and* the contract harsh and unconscionable. Under a money-lending contract, it is conceivable that certain provisions other than those relating to the cost of the loan might be harsh and unconscionable but it would seem that in 9 cases out of 10, if not 99 out of 100, where such a contract is found to be harsh and unconscionable it is *because* the cost of the loan was excessive. Contracts of this kind usually involve no obligations on the borrower other than to repay moneys borrowed plus additional charges. In my view, it would be virtually impossible to determine whether such a contract was harsh and unconscionable except on the basis of the cost of the loan.

The critical point to determine, therefore, is whether the "cost of the loan" as defined in the Act should be regarded essentially as interest or not. In my opinion, the broad view must be taken of interest as covering all of the things mentioned in the definition; otherwise, interest legislation can readily be defeated by using other means. However, I think it is correct to say that the Court reached the conclusion that interest is only an element of the definition of the cost of the loan and only an incidental element at that. It is the reasoning by which this conclusion was reached that perplexes me and which in my humble opinion was faulty.

I should like to draw attention first to the following statement from the majority judgment:

The day-to-day accrual of interest seems to me to be an essential characteristic. All the other items mentioned in the Unconscionable Transactions Relief Act except discount lack this characteristic. They are not interest. In most of these unconscionable schemes of lending, the vice is in the bonus.

This is from the Supreme Court judgment. This statement is based upon a reference in the third edition of Halsbury to the effect that interest accrues from day to day and such reference has seemingly been interpreted to rule out, as interest, anything of the nature of a lump sum payment. With the greatest respect, this seems to me to be quite wrong. Even if interest is assumed to accrue from day to day, there is no requirement that it must be paid from day to day. Merely because interest is paid in lump sums during the currency of a contract, or in one lump sum at the beginning or at the end of the contract, does not change its character or mean that it is not interest. Where compensation or additional compensation under a money-lending contract is paid to the lender under the label of a premium, bonus, etc., it is, in pith and substance, interest or additional interest, call it what one will. Any money-lending transaction can readily be put in a form where compensation—interest—to the lender takes the apparent form of either interest or bonus, and often either interest in advance, discount or bonus. Consequently, in my view, to hold that interest and discount alone, but not a bonus, have the characteristics of interest, is likely to make a travesty of interest legislation. In my view, too, any bonus called for under a contract can only be considered meaningfully in terms of the duration of the contract. A given bonus might be unconscionable in a short term contract but quite reasonable in a long term contract. Regardless of the manner in which the total compensation—interest—is arranged, it can reasonably be assumed that it is always related in the lender's mind to the actual amount of the principal advanced and the time that it will be outstanding.

I come now to what seems to be the kernel of the judgment, namely, the declaration that a bonus is not interest. This is of paramount importance because of all the things mentioned in the definition of cost of a loan, a bonus

was singled out by the Court as the real vice and therefore, presumably, as the main thing in determining whether "cost," as defined, is essentially interest. The following passages from the judgment are particularly pertinent in this connection:

In the cases decided in the Court—

that is, the Supreme Court of Canada,

under s. 6 of the Interest Act, it is settled that a bonus is not interest for the purpose of determining whether there has been compliance with the Act. Section 6 (of the Interest Act) reads: '...whenever any principal money or interest secured by mortgage of real estate is, by the same,....'

that is, by the mortgage agreement

'made payable on the sinking fund plan, or on any plan under which the payments of principal money and interest are blended... no interest whatever...shall be recoverable..., unless the mortgage contains a statement showing the amount of such principal money and the rate of interest chargeable thereon, calculated yearly or half-yearly, not in advance.'

Quoting again from the Supreme Court judgment—

Schroeder J. A. cited *Singer v. Goldhar* (1924) 55 O.L.R. 267, as defining interest in wide terms. In *Singer v. Goldhar* there was no provision for interest in the mortgage but there was a very big bonus. The Court of Appeal held that this infringed s. 6 of the Interest Act, the bonus being the same thing as interest. But in *Asconi Building Corporation v. Vocisano* (1947) S.C.R. 358, 365, Kerwin J. pointed out that *London Loan and Savings Co. v. Meagher* (1930) S.C.R. 381, had overruled *Singer v. Goldhar*. It is now established that in considering s. 6 of the Interest Act, a bonus is not interest...

This is a quotation from the recent Supreme Court judgment.

There is, therefore, error in the judgment of Schroeder J. A. in following *Singer v. Goldhar* in holding that interest in the wide sense includes bonus instead of following subsequent cases which overrule it.

These are very positive statements. I would draw the attention of the committee to the two main cases referred to above, involving bonuses, which were dealt with by the Supreme Court of Canada, namely, *London Loan and Savings Company of Canada v. Meagher* (1930) and *Asconi Building Corporation v. Vocisano* (1947) and I urge members to read them carefully. The actions in both of these cases endeavoured to invoke section 6 of the Interest Act but failed. However, I can find nothing in the judgments in either of those cases to justify the statements in the present judgment that it has been well settled that a bonus is not interest.

As I read the two main judgments referred to, the decisions did not depend upon determining whether the bonus was interest, but rather whether the mortgage agreement in each case had all of the characteristics and elements necessary to bring it within the scope of the very particular terms of section 6 of the Interest Act. In each case the Supreme Court ruled to the contrary, and hence that section 6 did not apply. As I see it, the Court in those cases was not called upon to determine whether a bonus constituted interest in the wide sense and did not do so. In fact, the comments of most justices indicated that they regarded interest and bonus in the same light. About the only exception was a rather oblique comment by Kerwin J. in the *Asconi* case to which I shall refer later.

It seems to me that it would have been more accurate in the present judgment to have said that the *Meagher* and *Asconi* cases decided that section 6 applies only to mortgages which on their face come within the description set out in section 6; that section 6 does not apply where interest or bonus or by whatever name called is arranged *outside* the mortgage agreement (as obtained in both the *Meagher* and *Asconi* cases) and is not mentioned therein so that on the face of the mortgage there is no blending of principal and interest. With the very greatest respect, I suggest that the *Meagher* and *Asconi* cases were almost completely irrelevant in connection with the present case.

In my opinion, the application of the *Meagher* and *Asconi* decisions was so important that I feel constrained to refer to each of them briefly.

In the *Meagher* case, which came first, a mortgage loan of \$30,000 on its face was arranged with interest at $7\frac{1}{2}$ per cent per annum payable half-yearly. However, by a prior agreement it was arranged that the borrower would pay a bonus of \$3,000 which was done by a separate cheque to the lender. There was no mention of the bonus in the mortgage agreement. Note that in order for section 6 of the Interest Act to apply, the principal and interest must be secured by the mortgage agreement and *by the same*, i.e., by the mortgage agreement, made payable on a plan whereby principal and interest are blended. The Court held that the bonus was arranged outside the mortgage agreement and hence section 6 did not apply. I think that a few quotations from that judgment, delivered by Smith J., are self-explanatory.

As to all mortgages that fall within the description set out in section 6, the Act takes away from the mortgagee part of what the mortgagor has agreed to pay, and would be obliged to pay, were it not for the Act. This results, quite irrespective of whether or not the terms are fair under the circumstances and have been agreed to by the mortgagor with full knowledge and appreciation of their meaning and effect, and irrespective also of whether or not the mortgagor would be entitled to relief under the ordinary rules of law. The application of the Act therefore must be confined to mortgages that come clearly within the description set out in the Act itself. In this case . . .

that is the *Meagher* case.

the mortgage is not by its terms made payable on the sinking fund plan or on any plan under which the payments of principal money and interest are blended—and does on its face contain a statement showing the amount of principal money and the rate of interest chargeable thereon calculated half-yearly, not in advance. There is therefore nothing in the mortgage itself that brings it within the description set out in section 6.

As already pointed out, the \$3,000 that the mortgagor agreed to pay as consideration for the loan—

and I emphasize the next words

whether regarded as interest or as something differing from interest could have been recovered as a debt, not under the mortgage, but under the agreement for the loan—

Taking the precise language of this section, it is only where any principal money or interest is, by the mortgage itself, made payable on any of the plans mentioned, that the section applies, the words being 'is, by the same, made payable on the sinking fund plan', etc., and it is only to mortgages described in the preceding part of the section that the final provision and section 9 apply. The proper conclusion seems to be that the provisions of the statute apply only to mortgages which on their face come within the description set out in section 6.

If it be thought that this leaves the door open for making agreements similar in practical effect to the mortgages described in section 6 but not covered by it, Parliament can enlarge the scope of the Act, at the same time providing, as it may see fit, against any undesirable results such as I have indicated.

The Act, however, as it stands, does not aim at controlling or limiting the rate or recompense that lenders may exact for loans, and has no such effect if the last part of section 6 is complied with ... The aim is to prevent the collection of interest provided for in the mortgage by plans described in section 6, which do not disclose to the ordinary borrower the real rate of interest being exacted by such plans".

It is difficult to see how this case "settled" that a bonus is not interest. On the contrary, the essential point seems to have been that the \$3,000 payment was arranged outside the mortgage and this being so the payment had the same status "whether regarded as interest or as something differing from interest". So much for the Meagher case.

May I now turn to the other leading and more recent case, namely that of the Asconi Building Corporation, wherein most previous cases, including the Meagher case, were reviewed.

In the Asconi case—this was in 1947—there were two similar mortgage loans, one for \$15,000 on its face, and another, arranged a little later, for \$16,000 on its face. These sums were made payable as principal and the mortgage agreements specified that the loans were without interest until maturity. However, it was brought out in evidence that by prior agreement again, \$2,500 was deducted in advance from the proceeds of each loan—this amount comprising interest of \$1,500 in advance and a bonus of \$1,000.

The plaintiff, Asconi Building Corporation, took action to recover the \$5,000 under sections 6 and 9 of the Interest Act.

The Supreme Court held that section 6 did not apply, since the interest and bonus paid in advance were arranged by a prior agreement outside the mortgage agreement, and hence were legal and enforceable; briefly, that the mortgage loan did not come within the prescriptions of section 6 and hence the latter did not apply.

As I read the judgment, no significant distinction was made between the interest of \$1,500 paid in advance and the bonus of \$1,000. I believe there is every reason for thinking that the judgment would have been exactly the same whether the whole \$2,500 deducted from each loan had been designated as interest or the whole as bonus or any other combination than actually obtained. In my opinion, still again with the greatest respect, I can find nothing in the Asconi judgment to support the statement in the recent judgment that it has been settled that a bonus is not interest for the purpose of determining whether there has been compliance with the Interest Act.

In the circumstances, I should like to quote a few excerpts from the Asconi judgment which I think are very pertinent.

Per Taschereau, J., and I quote. This is in French. Perhaps I could translate it.

In the case which concerns us, the principal sum or the interest or the bonus is not, by the agreement itself, made payable according to any of the methods mentioned in the Statute, and consequently there is nothing illegal if before the creation of the mortgage the parties have agreed to deduct or to pay in advance interest and bonus, and have stipulated under the mortgage agreement itself that no interest shall be payable.

That is the end of Mr. Justice Taschereau's comment.

Per Kerwin J., and I quote:

In the case of each loan in question in this appeal, it appears from the evidence that the amount actually deducted was composed of interest and bonus. As to that part representing bonus, the case is concluded by the Meagher decision.

I would ask the committee to note these next words:

While it is true that the court
that is the Supreme Court of Canada,
there treated the bonus as interest.

That is its own reference to what treatment was accorded the transaction in the Meagher case.

While it is true that the court there treated the bonus as interest, there is a great deal to be said for the opinion that the two are entirely distinct, and in view of the fact that Parliament is restricted to legislation in relation to interest, that phase of the matter should be kept in mind.

This rather oblique comment is the only one that I can find suggesting that any distinction should be drawn between interest and bonus. On the other hand, other justices dealing with the same case made comments that appear stronger on the side of no distinction. Per Kerwin J., continued:

The prime requisite for the operation of the section is that by the terms of the mortgage itself the principal or interest secured thereby must be payable in one of the methods mentioned. Here, the principal or interest is not so made payable, and the result is that there is nothing to prevent the parties to a loan transaction agreeing, prior to the execution of the mortgage, to the deduction or payment in advance of interest for the term of the mortgage, and then to provide by the mortgage document that there shall be no interest until default. The effect of such a collateral agreement is that the prepaid interest ceases to be such and becomes part of the principal advanced.

It seems to me that Kerwin J. was thinking and talking in terms of interest rather than bonus. Per Rand J:

Certainly I am unable to agree that the validity of the provisions in the instrument depends on whether the advance deduction is described as a 'bonus' or 'interest'.

Per Kellock J: In reference to the Meagher case:

The Court was of opinion that—
and after certain omissions,

(3) the \$3,000 agreed to be paid as consideration for the loan
and then these words

whether regarded as interest or something different from interest,
could have been recovered as a debt, not under the mortgage, but under the agreement for the loan.

For the purposes of the question with respect to interest with which it deals, the statute raises the question in every case as to what was in fact 'the principal money advanced'. In Meagher's case the court held that

the full face amount of the mortgage, viz., \$30,000 had been in fact advanced, and it therefore followed that no part of the \$3,000 bonus—and then these words:

even though it were regarded as interest in the sense of compensation for money lent, was interest 'secured by' the mortgage and therefore no part of such bonus was included in any payment called for by the mortgage. Hence the statute did not apply.

Accordingly, in my opinion, on the above evidence the case, with respect to both loans is governed by the principle of Meagher's case and then these words:

There is no distinction to be drawn between the bonus and the interest paid in advance. Both became debts under the agreement for the loan and neither were at any time secured by the mortgage deed or included in any payment called for therein.

The only conclusion that I can draw from the Meagher and Asconi cases is that in the opinion of the court it was immaterial whether the advance payments were designated as bonus or interest; the essential point was that the mortgage loans in question did not come within the scope of section 6 of the Interest Act, because such payments were arranged under prior agreements to make the loans and not under the mortgage loan agreements themselves as required by section 6.

Senator THORVALDSON: Mr. MacGregor, may I ask a question there, if I may intervene? Is not the result of those cases the real reason why the provinces, including Ontario, found it expedient to enact unconscionable transactions relief acts? It seems to me that the draft bills of these provincial acts must have had before them the judgments of the supreme courts that you have cited there, and as a result of that they found there was a vacancy in the law, namely that the Interest Act did not deal with the problem such as you are indicating, namely, bonus, however it might be called, the unconscionable part of that transaction could only fall under the provincial jurisdiction. What would you say?

Mr. MACGREGOR: I do not think that I can reconcile it that way, because the Ontario Unconscionable Transactions Relief Act antedated by a good many years both the Asconi case and the Meagher case, and even the *Singer v. Goldhar* case in the Ontario courts.

Senator THORVALDSON: That is right, although I think most of the recent legislation by provinces, some of the unconscionable transactions acts have been passed very recently by the other provinces.

Mr. MACGREGOR: That is so, and I think they have been induced by this recent Supreme Court judgment.

Senator THORVALDSON: You are quite right.

Mr. MACDONALD: Mr. Chairman, may I just add in that connection that at the time of the Court of Appeal judgment, Ontario was the only province, I believe, which had a statute in the form of the Unconscionable Transactions Relief Act. What is more, the Ontario statute—and perhaps counsel can check this—only Ontario saw fit to enact this provision, and this in turn was taken holus-bolus out of the English legislation.

Mr. MACGREGOR: I think there have been some other acts of that kind. In Manitoba there is the Mercantile Law Amendment Act that has somewhat

similar provisions. I am not sure off hand how far it goes. It is contained in the 1954 Consolidated Statutes. In Nova Scotia, the Money-Lenders Act there has had similar provisions, but Nova Scotia was very careful in that money-lenders act to mention that the legislature was only legislating as far as it was competent to legislate.

Mr. MACDONALD: With regard to charges around interest.

Mr. MACGREGOR: Newfoundland has had an Unconscionable Transactions Relief Act too since 1961.

Co-Chairman Mr. GREENE: I would like to ask something that might help clarify the position. Do you take the position that this representation in regard to the prior cases of yours, is now of nothing but academic interest, or are we not bound? Surely the pronouncement that bonus is not interest in the latest case, the Barfried case, is now binding and we are faced with it; it is an economic power that is clearly lost now by the federal Government in view of the Barfried case, is it not? In this pronouncement the judge who said they can legislate further if they wish in section 6 of the Interest Act is surely wrong, for it is a bonus, and, if this is a fact, how can you legislate about it? It is now a provincial matter. You take the stand this is *obiter* in the Barfried case?

Mr. MACGREGOR: I am afraid not. It is not *obiter*; it is the last word by our highest court, but I find it so difficult to understand the reasoning in the recent judgment that I felt compelled to explain or to make some comments on some aspects of it that I think are relevant.

The reason I have taken the time of the committee to go over it is this. It seems to me that if this committee is to know where it is going, it must know what the legislative powers of Parliament are; and while it is true this is the last word on section 6 of the Interest Act at least, or an interest having regard for section 6, I suppose there is nothing to prevent Parliament from amending section 6 of the Interest Act or other sections of the Interest Act in ways that might alter the situation.

I think these judgments have been given having regard for the particular form in which section 6 now stands.

Co-Chairman Mr. GREENE: You do not feel we are bound therefore. If Parliament legislated with respect to section 6 to try and include bonuses, are we not then bound by the Supreme Court decision you gave me, which is *ultra vires* to us, being a provincial matter because it is not interest?

Mr. MACGREGOR: Smith J. who rendered the decision in the Meagher case suggested that if Parliament did not like the result of the judgment, then the thing for Parliament to do was to amend section 6.

Co-CHAIRMAN Mr. GREENE: I fail to see how we can do that, in view of the fact that the majority of the Court says that bonus is not interest. Therefore we would have no authority to do that.

Senator THORVALDSON: If I may say to you, Mr. MacGregor, following the remarks of the co-chairman, Mr. Greene, there was a time, of course, when the Supreme Court of Canada did not make final law. That was when we had an appeal to the privy council which, however, did take the power to make law for Canada, as the Supreme Court of the United States has always had power in the United States.

It seems to me that finally and decisively the Supreme Court of Canada, by a decision of five to two, has made new law. It is true that the point at issue was very, very narrow. As I read from the Barfried case, it was whether to follow the pith and substance rule or whether to follow the rule on incidental matters.

Now, it was very clear in the judgment—it is in the mimeographed sheet here—that the Court of Appeal of Ontario decided that the pith and substance of this case was the question of interest. The Supreme Court of Canada on the other hand said—and I quote here from page 3 of the mimeographed sheet—that in so far as the act affects any matter coming within the classes of subjects assigned by the British North America Act to the exclusive legislative authority of the Parliament of Canada, it does so only incidentally.

Now, that is a clear-cut decision, and the Court of Appeal of Ontario said they followed the pith and substance rule which is well known, and the Supreme Court decided in this particular case that interest was only incidental.

It seems to me they have broken new ground completely on top of all the cases you cited, and it occurs to me that this law is going to stand until the Court either reverses itself or distinguishes. Mind you, you can always distinguish cases on the facts of any case, but it seems to me that this breaks very important ground in regard to the work of this committee.

Co-Chairman Mr. GREENE: And may limit the national field of jurisdiction for that very important subject.

Senator THORVALDSON: That is right. In my mind it greatly limits the national jurisdiction and cuts down to a large extent the terms of the Interest Act in so far as they go into dealing with the general subject of matters relating to what we call unconscionable transactions.

Mr. MACDONALD: Mr. Chairman, may I be more specific in that regard as to what I put to Mr. MacGregor? In the Barfried case there was a transaction involving the Small Loans Act, and therefore the decision, by implication, is declaring the Small Loans Act to be *ultra vires*.

Mr. MACGREGOR: I would hope not. I agree with you, nevertheless, that the cash advance was \$1,500 or less, and therefore the loan did fall within the scope of the Small Loans Act.

Unfortunately, that loan never came to our attention until long past six months from the time it was made, and since action under the Small Loans Act must be taken by summary conviction, it has to be taken within six months of the making of the loan. Barfried Enterprises Limited, of course, was an unlicensed lender.

Mr. MACDONALD: Which is the reason why it was not pleased or recorded by the court at any level, presumably.

Mr. MACGREGOR: I could not say. I don't know. The fact is, as you have indicated, the court did not suggest it was a loan falling within the Small Loans Act, although in my opinion it definitely was.

Mr. MACDONALD: On that basis and in view of the court's reference to the reformation of contract aspect of the Unconscionable Transactions Relief Act, have you had any doubts about the effectiveness of section 4 of the Small Loans Act which, in a limited scope, permits reformation of the money-lending contract?

Mr. MACGREGOR: There has been no dark shadow cast upon it, and that section has not been involved in any court case.

Mr. MACDONALD: Has there been any consideration of a reference to the Supreme Court of Canada?

Mr. MACGREGOR: I would rather wait until some case arose where it is necessary to invoke section 4, and then let the courts say what they think of it.

Senator THORVALDSON: In regard to what I was saying a while ago, I have the quotation I was looking up.

Mr. MACGREGOR: I think you were reading before from the contention of the provinces rather than the decision of the court.

Senator THORVALDSON: No, I was reading from the decision of the court. I just want to read part of the sentence of the decision of the Ontario Court where it says:

In either case this is unquestionably legislation in relation to interest under the pith and substance rule.

That was the pith of the Ontario decision which was unanimous. You said then that the Supreme Court simply said: "No, that is not right.", and as I quoted from the paragraph a while ago from the Supreme Court judgment, it does say only incidentally. There was the ground on which the two cases divided.

Mr. MACGREGOR: That is correct. May I simply say that, with all respect, I can find no support in the Asconi judgment for any declaration that a bonus is not interest.

There is still another case that was prominently mentioned in the recent judgment, namely, *Singer v. Goldhar*. It seems necessary to discuss this case briefly, especially in view of the statement in the recent judgment that the Ontario Court of Appeal was in error in referring to it, since it had been "overruled" by the Meagher case.

In the *Singer* case, the mortgage was for \$4,700 to be repaid in eleven monthly instalments of \$100 each, the balance to be paid at the end of twelve months. There was no provision for the payment of interest, but there was a provision that the mortgage, when executed and registered, should not bind the mortgagee to advance the money or "having advanced a part, to advance the balance". The action was for foreclosure. It was admitted, for the purpose of the trial, that only \$3,500 was advanced, and that the mortgagor had paid back \$3,800. The action was really designed to collect the \$900 difference between \$4,700, the face amount of the mortgage, and \$3,800, as a bonus.

However, it was held by the court that the mortgage was satisfied.

The *Singer* case was dealt with by the Ontario Court of Appeal in 1924. It never reached the Supreme Court of Canada, although it was referred to in both the Meagher and the Asconi judgments of the latter Court.

Singer's action to collect \$900 as a bonus was rejected by the Ontario court on the grounds that it would really constitute interest, and since the mortgage did not contain a statement of the kind required by section 6 of the Interest Act, only the principal could be recovered.

Smith J. in delivering judgment in the Meagher case, said in reference to the *Singer* case, that the result did not conflict with what he believed to be the proper construction to place upon the Interest Act. Presumably he felt this way for the same reason as stated by Kellock J. when discussing the same point in the Asconi case as follows, and I quote Mr. Justice Kellock's comment:

As in Ontario a mortgagor is not estopped by the terms of the mortgage from showing the actual amount advanced, the (*Singer*) decision could have been put on the ground that there was no liability upon the mortgagor beyond the amount actually advanced.

Smith J. however, went on to say in reference to the *Singer* case in the Meagher judgment, that he thought there was some conflict in the reasons given by the Ontario court for its decision in the *Singer* case based upon section 6 of the Interest Act. He objected in particular to the fact that the Ontario court had

referred to two other cases dealt with by the Supreme Court of Canada, namely *Canadian Mortgage Investment Company v. Cameron*; and *Standard Reliance Mortgage Corporation v. Stubbs* as support for its decision re *Singer*. It seems best to quote Smith J. directly in this connection from the Meagher judgment:

In these cases (i.e. the Canadian Mortgage and Standard Reliance Mortgage) this Court was dealing with mortgages which on their face had plans of repayment coming within the description in the first portion of section 6, and the question in dispute was whether or not the mortgage contained a statement in compliance with the provision of the latter part of that section. I have already pointed out that this latter part of the section applies only to mortgages that come within the previous part of the section. The passage quoted above, (describing the essential features of the *Singer* loan) is dealing, as will be seen, with a mortgage which had no provision for repayment on any of the plans described in section 6. The two cases cited are authority for the proposition laid down only when it is limited to mortgages described in section 6.

In other words, Smith J. felt that the *Singer* case did not fall within the scope of section 6 but I cannot read anything into his comment to indicate that he felt a bonus was not interest. He just did not deal with that particular aspect at all. It was thus a rather peculiar way in which the *Singer* decision by the Ontario court was "overruled" by the Meagher judgment, and I think in this connection that the following additional comments by Kellock J. in regard thereto in the *Asconi* judgment are particularly pertinent:

In Meagher's case the court was not called upon to decide a case such as was involved in *Singer's* case as in the latter the liability of the mortgagor for bonus could not have been placed upon any basis outside the terms of the mortgage itself. I think therefore that the statement in the judgment with respect to the mortgage in *Singer's* case must be considered as *obiter*. In my opinion, it is inconsistent with the actual decision in Meagher's case.

This is Mr. Justice Kellock's summary of that point.

Consequently I find further difficulty in following the reasoning behind the statement in the recent judgment that:

There is therefore error in the judgment of Schroeder, J. A. in following *Singer v. Goldhar* in holding interest in the wide sense includes bonus instead of following subsequent cases which overrule it.

As I see it, again with the greatest respect, Mr. Schroeder was right in subscribing to the view expressed by Masten, J. A. that in the wide sense the additional compensation claimed by *Singer* as a bonus would in effect constitute interest. It does not appear to me that it was this view that was "overruled" by subsequent cases, but rather the view that the *Singer* mortgage on its face was of a kind that met all of the prescriptions of section 6 of the Interest Act so as to be subject thereto.

To sum it all up, in my humble opinion neither the Meagher case nor the *Asconi* case, nor anything said concerning any other cases referred to therein, including the *Singer* case, provide just grounds for holding that a bonus is not interest. It seems to me unfortunate, therefore, that the recent judgment should have gone so far in declaring that a bonus is not interest, not only for the restricted purposes of section 6 of the Interest Act, but apparently also in reference to the meaning of interest in general, as in the definition of "cost of the loan" in the Unconscionable Transactions Relief Act of Ontario.

If such declaration had not entered into the recent judgment, it would seem to have been difficult to justify the actual decision on the other grounds mentioned in the judgment. In fact, if the same view had been taken as was seemingly taken in the Meagher and Asconi cases, that no distinction is to be drawn between a bonus and interest, it would seem difficult to avoid the conclusion that the "cost of the loan" taken as a whole is essentially interest under that or another name; that excessive cost of a loan is the prime requisite for bringing a loan within the scope of the act; and that such act is therefore essentially legislation in relation to interest.

I apologize for taking so much time to discuss this recent judgment of the Supreme Court of Canada re the Unconscionable Transactions Relief Act of Ontario, but it seems to me that if the deliberations of this committee should perchance lead to consideration of any further legislation in the field of consumer credit, it is necessary to know with all possible certainty the powers of Parliament to legislate in relation to interest.

If the present position is that by reason of judgments respecting section 6 of the Interest Act a bonus or anything of like nature may not be regarded as interest in any circumstances, I respectfully suggest that the sooner the said section is amended the better. In the field of consumer credit especially, I believe that it is impossible to legislate effectively in relation to interest, or practically so, unless ancillary charges are dealt with too. I think that completes, Mr. Chairman, about all I wish to say.

Co-Chairman Senator CROLL: You said it very well, Mr. MacGregor.

Senator THORVALDSON: I would like to say, Mr. Chairman, that we are all indebted to Mr. MacGregor for his very, very lucid statement in regard to this whole problem, and I was not objecting at all to him going into those former cases, because they certainly give the background of the Barfried case.

Mr. MACGREGOR: I just can't understand the final judgment.

Co-Chairman Senator CROLL: Now, honourable senators, would someone like to ask a question? Mr. MacGregor has a fund of information.

Senator THORVALDSON: Mr. MacGregor, I have just come across the fact that apparently Manitoba enacted legislation many years ago which is very similar to the Ontario Unconscionable Transactions Relief Act. The only thing is it did not have the name of "Unconscionable Transactions Relief Act."

Mr. MACGREGOR: It was the Mercantile Law Amendment Act.

Senator THORVALDSON: It is contained in an act called the Mercantile Law Amendment—let me get the exact name. It is an act respecting mercantile law, and the short title: "This Act may be cited as the Mercantile Law Amendment Act". That is contained in the Revised Statutes of Manitoba, 1954, but I recall it was drafted and enacted while Mr. Major was Attorney-General of Manitoba, so I think it came late in the thirties.

Mr. URIE: Was it not 1932?

Co-Chairman Senator CROLL: Are there any cases under it?

Mr. URIE: Not that I have examined.

Senator THORVALDSON: There is reference here to 1942 in the Revised Statutes of 1954, Chapter 162. Beginning at section 8 of that Act, it is headed "Relief from Usurious Transactions" and I think, Mr. MacGregor, you would agree that this wording is very similar.

Mr. MACGREGOR: Yes, very similar to the Ontario act.

Senator THORVALDSON: That we have been discussing.

Mr. MACGREGOR: If it would be helpful, I have a list of what I believe are all of the acts of the nature of the Ontario Unconscionable Transactions Relief Act of the provinces.

Mr. MACDONALD: Yes, indeed.

Mr. MACGREGOR: In Manitoba there is the Mercantile Law Amendment Act which Senator Thorvaldson has just given as R.S.M. 1954, Chapter 162. In Newfoundland there is the Unconscionable Transactions Relief Act of 1961, chapter 38, second session. In Nova Scotia, the Money-Lenders Act, R.S.N.S. 1954, chapter 181; in Ontario the Unconscionable Transactions Relief Act, R.S.O. 1960, chapter 410.

In addition, may I say that similar bills have been introduced this year in the following legislatures, namely, British Columbia, Saskatchewan and Quebec. So far as I am aware, none of the latter bills have yet been—

Co-Chairman Senator CROLL: Quebec has been passed.

Mr. MACGREGOR: Was it?

Co-Chairman Senator CROLL: Yes, I saw a copy of it.

Mr. URIE: Mr. Chairman, I may say we are preparing copies of each of the bills which have been passed. They should be here now.

Co-Chairman Senator CROLL: Of these three bills?

Mr. URIE: Of the four acts—Alberta, Manitoba and Nova Scotia; three acts plus amendments to the Alberta act passed this year.

Mr. MACDONALD: One of the interesting things about the Nova Scotia one is that they go out of their way to avoid any suggestion that they are governing interest.

Mr. MACGREGOR: That is the point I had in mind a few moments ago.

Co-Chairman Senator CROLL: How do they do it?

Mr. MACGREGOR: They say "Except in respect of interest to set aside, either wholly or in part, or revise or alter any security given or agreement made in respect of the loan". And they refer to "interest" as defined as including discount and also including charges in respect of which the Legislature of Nova Scotia has not power in this behalf. So they are very careful.

Mr. MACDONALD: May I just follow up with a question I asked Mr. MacGregor in private. He was telling me under the Summary Convictions provision of the Criminal Code that they must take action within six months after any of these unconscionable acts or any of these transactions in violation of the Small Loans Act have been entered into. This means, of course, the transaction may come to light a year and a half later and the criminal power would not be there.

Mr. MACGREGOR: That is correct. It means in practice where we find an unlicensed lender—or in fact any lender but the difficulty is greater in respect of an unlicensed lender—where we find a lender charging more than the act permits, we have to act very quickly to make our case because Justice has advised us that the six months period runs from the time the offence was committed, and the time the loan was made is the time the offence was committed.

As a matter of fact, that is what happened in the Barfried case. It did not come to our knowledge until long after six months from the date the loan was made.

Mr. MACDONALD: My inclination would be to say as to civil liability on that borrower-lender procedural provision, it would not prevent the borrower from relief under the Small Loans Act restricted to an excess of interest. Have you had any experience on that?

Mr. MACGREGOR: There has never been a case on that point. Section 4 is quite general. It does not refer to anything of the nature of summary convictions there. It may be that there is no such time restriction if one were to invoke section 4.

Mr. MACDONALD: In Barfried presumably the parties, or at least the borrower in that case, just decided not to rely on that.

Mr. MACGREGOR: I think in the Barfried case he actually took action under the Ontario act. Perhaps he was unaware of section 4.

Mr. URIE: I wonder, Mr. MacGregor, if you might be able to tell us whether or not there have been any changes of which your department has been made aware in rate structure, cost or anything of that nature by any licensed or unlicensed company since the judgment in the Barfried case?

Mr. MACGREGOR: So far as I am aware, Mr. Urie, they have continued to operate just exactly as they were, as they had been doing.

Mr. URIE: Have there been any discussions with any of the companies, licensed or unlicensed, with respect to the power in your department to deal with these matters?

Mr. MACGREGOR: None at all.

Mr. URIE: None at all. Have any of the companies, for example, ever queried the power of your department under section 3(3) of the Small Loans Act or under section 14(3), to deal with this matter, in the light of the fact that this would appear to be something of the nature of reformation of contract? I have been given to understand there are some companies that ignore, in fact, the length of time imposed by section 3(3) and by section 14(3).

Mr. MACGREGOR: All I can say, Mr. Urie, is that if you can find any companies which ignore this restriction, I wish you would let me know. I don't know of any.

Mr. URIE: I was given that information, but I have no real evidence to substantiate it; the reason being, this is a matter of contractual relationship over which the Dominion Parliament has no real jurisdiction.

Mr. MACGREGOR: This is a complete surprise to me as far as practice is concerned, because I can certainly say that all the big lenders conform strictly with the law in this subsection (3) of section 3. If there are any smaller lenders that are not, our examiners have not caught up with them yet, and I am surprised if they have not.

Mr. URIE: If I can get any more precise information, you can rest assured I will let you know.

I do not know, Mr. Chairman, whether you wish to go into some questioning concerning testimony given by Mr. MacGregor at the last meeting, or whether you wish to confine—

Co-Chairman Senator CROLL: There may be other questions. Anything of a general nature?

Mr. MACDONALD: No.

Co-Chairman Senator CROLL: Some of them may have forgotten a question at the last meeting.

Co-Chairman Mr. GREENE: Would it not be better to finish Barfried just while it is still fresh with the witness, and the committee would then go on to the last day's testimony, if they wished to ask any questions about it.

Senator THORVALDSON: One question I would like ask, Mr. MacGregor: you mentioned that perhaps this Parliament should amend the Interest Act in order to enable the federal authorities to deal with this problem relating to unconscionable transactions.

I am wondering if you have considered whether any such amendment might not invade the provincial jurisdiction as the result of the decision of the Barfried case. Mainly, the Barfried case seemingly having held that these matters of bonuses, discounts, charges, and so on, are properly within provincial jurisdiction, consequently might it not appear that any legislation we try to enact here might be *ultra vires* of the federal authority?

Mr. MACGREGOR: I would be reluctant to answer your question, Senator Thorvaldson. I think it is a matter for Justice to answer really. I will say this, however, that if a lender may give compensation a name other than interest and thus get by the Interest Act or get by any other federal interest legislation, then the powers of Parliament to legislate in this field, although given to Parliament exclusively under the British North America Act, are worthless.

Senator THORVALDSON: I realize we cannot answer that question but I just state it because it is a problem.

Mr. MACGREGOR: We went through twenty years at least of that kind of situation before the Small Loans Act was passed. That is why I wearied the committee, I think, last week describing the different provisions in the private acts passed by Parliament limiting interest, limiting expenses, limiting chattel mortgage fee, and so on. It was just impossible to control the overall cost by that approach.

Co-Chairman Mr. GREENE: Mr. MacGregor, I wonder if I could ask two questions now. First, did our federal representatives appearing before the court in the Barfried case bring very forcibly to the attention of the court the fact that this might result in virtually abrogating the federal power to create uniform legislation in Canada with respect to credit? Was that aspect of it forcibly brought before the Supreme Court of Canada?

Mr. MACGREGOR: I would say no, Mr. Chairman.

Co-Chairman Mr. GREENE: Secondly, were you or was any member of your department called in by Justice to advise or to give evidence, if necessary—although you could not give evidence at that stage—or to advise in regard to these matters at any time prior to the hearing of the Barfried case in the Supreme Court of Canada?

Mr. MACGREGOR: I was asked by the Department of Justice for comment upon the previous judgment, and I gave Justice my comments, just before the hearing. I was not invited to attend the hearing before the Supreme Court of Canada, but even though not invited I would have attended had I been able to do so. The fact is I was unable to do so and I was not present at that hearing.

Co-Chairman Senator CROLL: But the comment you repeated today, in effect, did you not?

Mr. MACGREGOR: I did not go into anything like the detail I gave today.

Co-Chairman Senator CROLL: But in substance you agree with the judgment of the Supreme Court of Ontario?

Mr. MACGREGOR: I most certainly do. I think it was a very good judgment, well reasoned.

Co-Chairman Mr. GREENE: Maybe we are going to have to do with our Parliament in Canada what Roosevelt did with his.

Co-Chairman Senator CROLL: I had one of the laymen on our committee ask me a few minutes ago: "How do you explain the fact that five judges in one court say 'Yes' and five judges in another court say 'No' "?

Co-Chairman Mr. GREENE: That was the second point I was going to refer to if Mr. MacGregor could explain—five judges of the Court of Appeal of Ontario having held one way—

Mr. MACGREGOR: Including the Chief Justice.

Co-Chairman Mr. GREENE: Including the Chief Justice, you would naturally think it was very much of a Herculean task to overrule it.

Mr. MACGREGOR: I always thought it was questionable legislation having regard for the power of Parliament to legislate in relation to interest. I have had the same views about some other provincial legislation I mentioned.

Quebec in its Instalment Sales Act has limits on cost there. Credit union legislation in various provinces limits the cost. To me that is legislation in relation to interest, which is a federal matter.

Senator THORVALDSON: I notice Quebec had counsel at the Supreme Court hearing as well as Ontario.

Mr. MACGREGOR: Yes, Quebec intervened in support of Ontario.

Mr. URIE: Mr. MacGregor, in a situation such as the Meagher case, where the amount of the loan, I think, was \$30,000 and \$27,000 was advanced, do you know whether or not or do you have any opinion on the possibility of the borrower saying at the end of the term of his mortgage: "I refuse to pay anything more than \$27,000. That is all I was advanced."? Because of the mortgage legislation in the Province of Ontario, as I understand it, you are only required to repay the amount that was advanced. Was that argument ever advanced?

Mr. MACGREGOR: I think it was held in that case that \$3,000 was paid separately, not actually by Meagher. Meagher was the liquidator. It was a theatre company to which the loan was made. Meagher did not know anything about a bonus at all until he came into the picture later and found what had been paid over by the theatre company, and took action to recover it. The court held, as you recall, that the \$3,000 payment was made under a prior agreement and was legally enforceable, quite apart from the mortgage agreement itself which made no reference whatsoever to the bonus.

Mr. MACDONALD: Was there a collateral agreement in writing with respect to the \$3,000, or was it assumed that the agreement was tacit?

Mr. MACGREGOR: I think it would have to be taken it was in writing in the sense that at least it was recorded in minute books of the theatre company where the payment was approved.

Mr. URIE: There was actually exchange of a \$3,000 cheque, for that \$30,000 was advanced and \$3,000 was given back, isn't that the case?

Mr. MACGREGOR: That is correct, although actually \$30,000 was not paid in full. There were other deductions for legal costs, etc. I think about \$28,000 or something more was actually advanced, but the court did hold in the Meagher judgment, as you may recall, that it would not have made any difference if the \$3,000 had been deducted from the proceeds rather than paid by a separate cheque.

Mr. URIE: But the amount would have been collectible by virtue of the prior existing contract and not under the mortgage.

Mr. MACGREGOR: That was the court's decision.

Co-Chairman Senator CROLL: Are there any more questions on the Barfried case? If not, possibly there are some questions with regard to the testimony the other day.

Mr. URIE: Mr. MacGregor, if I may just start this off, I had occasion to review the evidence which you gave at the 1956 hearings of the Banking and Commerce Committee, prior to the passage of the legislation amending this Small Loans Act, and at that time there were a number of interesting points which were brought up. If I could start off, there is the question that at that time you prophesied that earnings of the various licensed companies, as well as the small loans companies, would decline to a certain extent, but much less than the companies themselves anticipated they would go down. How have these earnings stood up in the light of the reductions in rates?

Mr. MACGREGOR: Maybe I misheard you, Mr. Urie. My recollection of that hearing was that the lenders took the view they were all going to be out of business.

Mr. URIE: That is right.

Mr. MACGREGOR: I thought they would make a reasonable profit.

Mr. URIE: That is right. They said they would be out of business and you said in effect their profit would go down but it would still be very reasonable.

Mr. MACGREGOR: That is right. It is very difficult to quote any particular figure or figures relating to earnings either as an absolute amount or as a percentage, because the position of the various licencees varies enormously. Some are small, some are large, some are subsidiary companies of U.S. parent companies. Some carry on several kinds of business. Some make loans above \$1,500. Some carry on a conditional sales type of business as well.

Taxes, of course, have their impact, and the tax position of these companies varies greatly.

Perhaps the best way I can answer your question is to refer to the ratio of gross earnings to average assets—the gross earnings being the result of their operations but before paying interest on borrowed money and before paying income taxes. In other words, it is the inherent earning capacity of the business having regard for the dollars involved regardless of whether the dollars involved are their own money or borrowed money.

Looking at the small loans business by itself, on loans of \$1,500 or less, again I might make the comment before giving any figures that prior to 1957 the act applied only to loans up to \$500, whereas from the first of 1957 the ceiling was raised to \$1,500, so that from 1957 on we have a much enlarged scope of small loans business.

I speak of small loans business now by itself. In the two years before the amendments to the act became effective in 1957, that is, the two years 1955 and 1956, the ratio of gross earnings to average balances outstanding during the year was 10.5% in 1955 and 9.7% in 1956. In 1962—I have not that figure for 1963—the ratio was 9.6%.

For business other than small loans, that is the larger loans and the conditional sales type of business that licencees do, the ratio in 1955 and 1956 was 10.4% and 10.4%, the same in each year, and in 1962 10.7%.

Taking their business as a whole, I cannot give you 1956 but for the business as a whole in 1955 the ratio was 10.5%, and in 1962 it was 10.2%.

In other words, the inherent earning capacity of the business—

Mr. URIE: Has not changed.

Mr. MACGREGOR: Has not changed appreciably, but the explanation, of course, is that the volume of business has increased enormously since 1955.

Mr. URIE: That is right.

Mr. MACGREGOR: That is why they are still able to make the same relative level of profits percentage-wise as they were doing in 1956.

Co-Chairman Senator CROLL: Mr. Hales?

Mr. HALES: I was going to say, by the same token, if the volume had not gone up for those companies and their fixed charges along with their additional costs of operation, they could have been in a rather precarious position.

Mr. MACGREGOR: Yes, some of them would have been under greater pressure.

Mr. MACDONALD: Wouldn't it be that by the very nature of the amendment the profit was bound to come up because you are increasing the limit by \$1,000?

Mr. MACGREGOR: Not entirely so, because under our law there is nothing to prevent a licensee from transacting business in the area above the ceiling under the Small Loans Act.

Mr. MACDONALD: These figures were total obviously, both covered by the provisions of the act and above it.

Mr. MACGREGOR: I gave three sets of figures, the first relating to the small loans business only; secondly, to the unregulated business; and thirdly, to all combined.

Mr. URIE: For those companies carrying on all three kinds of businesses, how do you reckon the costs ascribed to each if they are conducted out of the same office?

Mr. MACGREGOR: We are faced with this problem of expense allocation in a great many of the companies under our supervision, Mr. Urie. It is a matter of judgment and opinion, of course, but I can say that a very earnest effort is made, and we insist that it be made, to allocate costs properly.

For example, amongst insurance companies there are many fire and casualty insurance, companies operating in groups and so on, and it is necessary to analyze the expenses of the combined office and allocate them amongst the several companies. It happens also even in the operation of a single life insurance company carrying on accident and sickness business in a separate fund from its life business, and even within its life business in a separate fund for its participating business and its non-participating business. One has to make a very detailed costs analysis, and it is the same type of problem that obtains in many offices and it obtains in our own department, where we assess against the companies supervised, that part of our total expenses attributable to supervision, so that we have to analyze our own expenses in great detail as between work done for the government and work done in respect of supervision.

Mr. URIE: In the case of companies which you supervise and where you feel for example that the allocation of costs to the small loans section is too high and would not properly reflect lower profits, are you in a position to direct these companies to more properly allocate their costs?

Mr. MACGREGOR: I do not like to use the word "direct". I can certainly say that we discuss it with them very thoroughly and have on innumerable occasions.

As a matter of fact there is a formula that a good many companies use which takes into account the number of new loans made, number of loans on the books, amount of new loans made, amount on the books, and a number of other factors.

Co-Chairman Senator CROLL: There you can move from company to company in order to reach a formula.

Mr. MACGREGOR: That is one reason, Mr. Chairman, why we think it is most desirable to have statistics that reflect the operations accurately.

I have no hesitation in assuring you, Mr. Urie, that I believe these expense allocations are—

Mr. URIE: Are fair.

Mr. MACGREGOR: Are fair and reasonable. It is not something that is taken for granted.

Mr. RYAN: May I take it there is no company that restricts itself strictly to the small loans field?

Mr. MACGREGOR: Yes, Mr. Ryan, there are. There is great variety. Sometimes the same interests will have more than one company. There may be a company as a licensee under the Small Loans Act, which may or may not confine itself to the small loans business. Sometimes they will have a separate company for cash loans above the ceiling. That is the situation in Household Finance.

Mr. RYAN: Is there any company that just carries on without any subsidiaries or whatever, just carries on in the small loans field alone, that we cannot get a look at and say that this is a picture of a company carrying on in the small loans field exclusively?

Mr. MACGREGOR: I might be able to think of one. Household Finance Corporation of Canada, the licensed company, restricts its business to small loans alone, but it has another company, Household Finance Company Limited, which is not a licensee and which restricts its business to loans above the ceiling, so we have no official connection with the latter company.

Mr. RYAN: They carry on from the same premises in most cases, don't they?

Mr. MACGREGOR: Oh, yes.

Mr. URIE: To your knowledge, Mr. MacGregor, do any licencees charge less than the maximum rates permissible under the act?

Mr. MACGREGOR: Over the years they have, Mr. Urie. Back in the 1940's some of them reduced it down to $1\frac{1}{4}\%$ and $1\frac{1}{2}\%$ per month and at that time the department suggested that the maximum permissible rate be reduced, which, however, was not accepted. It is the rare exception at present where any lender charges less than the maximum permitted. There is a small lender, Service Finance, that charges a little less. As a matter of fact it almost always has charged a little less.

Co-Chairman Senator CROLL: What a lot of advertising you gave them this morning.

Mr. MACGREGOR: May I simply refer to it as one small lender. I was not thinking of that aspect, Mr. Chairman.

Co-Chairman Senator CROLL: I am glad to hear it, Mr. MacGregor. May I ask you a question. The Porter Commission recently suggested that the maximum be raised under the Small Loans Act. You are aware of the recommendation?

Mr. MACGREGOR: Yes.

Co-Chairman Senator CROLL: Would you care to express a view?

Mr. MACGREGOR: I am reluctant, Mr. Chairman. No one knows yet, I suppose, what the government may do by way of implementation. The Porter Commission recommended that the ceiling be raised to \$5,000.

Co-Chairman Senator CROLL: Yes.

Mr. MACGREGOR: And that the maximum permissible charges be 2% per month on the first \$300 of any loan and then 1%, on all the money above \$300.

Co-Chairman Senator CROLL: I think I am wrong in asking that question; I am afraid I will embarrass you. We are not insisting upon an answer.

Mr. MACGREGOR: I might simply answer this way, Mr. Chairman, that there is only one state in the U.S.A. to my knowledge that has a ceiling as high as \$5,000. That state is California and it has had that top limit for quite a number of years now.

Co-Chairman Senator CROLL: They do not think too well of it anyway.

Mr. MACGREGOR: By and large in all other states the ceiling is substantially lower than \$5,000.

Co-Chairman Senator CROLL: We will just leave that.

Mr. URIE: Do you know whether any of the sales finance companies and the loans for amounts in excess of \$1,500, confine themselves to the same rates as under the Small Loans Act or a lower rate?

Mr. MACGREGOR: There is considerable variety in that field. I know the rates that are charged by our licensees. In the unregulated area they vary greatly. For the larger loans some charge 2% per month, but there are many that are charging about 1½%.

Mr. URIE: Do any of them actually fall into the levels prescribed by the Small Loans Act, notwithstanding the fact that they are over \$1,500?

Mr. MACGREGOR: No, I do not know any licensed lender off-hand that uses the same formula for its larger loans as for its smaller loans, that is, that extends the ½ of 1% to the element above \$1,500.

Mr. URIE: Are you supplied with information by these lenders in excess of the \$1,500 to the same extent as those who are licensed by your department?

Mr. MACGREGOR: No, Mr. Urie. All licensees, of course, have to file a financial statement with us annually, and we inspect them annually; such statements cover all of their business.

Mr. URIE: Very detailed.

Mr. MACGREGOR: Very considerable detail, yes, but if a lender is unlicensed, we have no official connection with it at all.

Mr. HALES: Do the banks fall into this category? Do they give you a statement about their small personal loans?

Mr. MACGREGOR: No, Mr. Hales. The banks are excepted from the application of the act, and we have no official connection with them either, but I must say that if I wish to know what rates the banks are charging or to have copies of their literature and documents, that they have been most cooperative in every case, in furnishing them to me.

Mr. IRVINE: Those licensed under the Small Loans Act, as I understand it, can loan up to a ceiling of \$1,500, is that right? They are licensed for that operation?

Mr. MACGREGOR: They may make loans of any amount, but only loans up to \$1,500 are regulated by the Act.

Mr. IRVINE: Are regulated by the Act. Now, how much higher can they go in amount above that \$1,500?

Mr. MACGREGOR: As high as they like.

Mr. IRVINE: As high as they like, but does a firm of this type—

Mr. MACGREGOR: In fact they do not go very high, nevertheless, because as I mentioned at the last meeting practically none of these licensees is empowered to lend on the security of real property. When you get into that upper field, the lender is usually looking for substantial security.

Mr. IRVINE: I was just thinking that, in conjunction with that, this firm licensed under the Small Loans Act would have no licence whatever to do business with resale firms where properties or chattels, such as appliances and that sort of thing, were concerned.

Mr. MACGREGOR: Yes, they may.

Mr. IRVINE: They could?

Mr. MACGREGOR: Yes, licencees may in general carry on not only a cash loan business but also a conditional sales type of business. Many of them do, not all by any means, but many of them do.

Mr. URIE: Mr. MacGregor, under the definition of cost in your Act, there does not appear to be anything dealing with life insurance premiums. Many of these loans are life-insured. Is there an element of profit contained in the premium paid for life insurance which goes to the lender?

Mr. MACGREGOR: This question gave rise to very considerable discussion back about the time of the amendments in 1956. It is certainly a wholly reasonable and very often desirable practice to provide life insurance in connection with a loan, so that if the borrower dies the balance is automatically paid by the insurance.

At the time of the amendments in 1956, there was evidence of a very considerable interest on the part of lenders at that time in providing life insurance facilities in connection with their loans. Prior to that time only three or four, as I recall it, or five maybe, had actually being doing so and they had been doing it at their own expense.

In the bill as introduced in 1956, charges for life insurance were specifically mentioned in the definition of cost, so that if the bill had been enacted in the form in which it was introduced, then if lenders were to provide life insurance they would have to absorb the cost within the maximum cost of the loan set by the act.

Some lenders objected strenuously to that provision, and at the end of the hunt it was deleted, so that left the department in some uncertainty where the question of life insurance stood, since it was still not mentioned in the definition of cost.

We had many discussions with the lenders at that time and with their lawyers, and with the Department of Justice. The outcome was that if a lender offered these facilities through a group life insurance policy, but on a wholly voluntary basis, where there was absolutely no compulsion on the part of the borrower to take insurance and it was entirely voluntary on his part whether he took it or not, then Justice advised us that in their view it was quite in order for the lender to make a specific additional charge for that purpose.

After much discussion, the Department issued quite a lengthy memorandum to licensees dealing with that whole subject. While the maximum charge that might be made for life insurance was not specified in our memorandum, it was well understood and agreed by the lenders that they would not in fact charge a premium exceeding 50 cents per \$100 of the initial amount of loan per year. They have all abided by that, which is a very reasonable premium, and I must say very considerably less than premiums charged for similar purposes in the U.S.A. in many instances.

Mr. URIE: In other words on a maximum loan, the amount of premium would be \$7.50, is that right? The maximum chargeable?

Mr. MACGREGOR: For the \$1,500 loan, if it were taken for twelve months. If we are talking of a longer period, then the premium is pro-rated. Lenders have, I must say, lived up to the rules we laid down in that connection, and now most

lenders do provide such insurance. I could submit a copy of our memoranda to the committee but I doubt whether it is germane to the particular work of the committee.

Mr. HALES: In regard to life insurance, Mr. MacGregor, of course the lender would not benefit by that premium to any extent, because that amount would be paid to the life insurance company, I would think.

Mr. MACGREGOR: There are different ways of making extra money. The lender could theoretically charge far more than he pays to the life insurance company. That is the easiest way to make extra money in connection with loans. But, of course, that is one of the rules we laid down, that the lender could not charge the borrower more than the lender pays the insurance company.

Mr. URIE: It just became a service to the lender.

Mr. MACGREGOR: That is correct.

Mr. URIE: And a very useful one too, I think.

Mr. MACGREGOR: A very useful one, and it has worked out well. At the same time, the lender does derive some indirect benefit from the insurance, not necessarily in a dollars and cents way, but it is very much nicer when a borrower dies—I shouldn't put it that way—

Hon. SENATORS: Oh. Oh.

Mr. MACGREGOR: —to have insurance available to liquidate the balance outstanding, so that the lender does not have to go to the poor widow and try to collect the loan from her.

Mr. URIE: Must a lender deal with an insurance company, or can he be self-insured and still charge an extra?

Mr. MACGREGOR: I think they would be ill-advised to be self-insured. They all deal with a registered life insurance company.

Senator THORVALDSON: I am sure they would be quite illegal in trying to be insurers because, as you know, there is no right for an individual to start a life insurance business in Canada without being incorporated under the act.

Mr. MACGREGOR: That is correct.

Mr. IRVINE: This would not be very good business anyway, because it would have to be a very large firm to be on an actuarially sound basis to go into that business for itself.

Mr. MACGREGOR: That is right. Before 1956, of course, lenders in some types of cases would cancel the balance of the loan rather than try to collect. But it is really a matter of degree how far the lender may go in that respect, whether he cancels the balance in the event of death only where it is determined he is unlikely to collect anyway, or whether he extends that practice to other more moderate cases, or even goes so far as to, say, cancel it in all cases. There is still the odd lender that provides the insurance at his own expense.

Senator THORVALDSON: Mr. Chairman, I think I would be fair in suggesting you could not do it, because he can make the term of the contract such that if you paid me an extra fee of \$5, then if you die during the relationship to the lender, then your estate is not required to pay anything, and probably that would not be called insurance within our insurance law.

Mr. MACGREGOR: I would worry about that if he charges some specific consideration in return for a promise or guarantee to cancel it. I would be inclined to say that he was carrying on the business of insurance.

Senator THORVALDSON: There must be case law on the question.

Co-Chairman Senator CROLL: Mr. Mandziuk?

Mr. MANDZIUK: Mr. MacGregor, the way credit unions carry on, they are lenders at the same time they are insurers on their borrowing without any extra charge. I know that from experience. Are you admitting them as lenders when you say—

Mr. MACGREGOR: Credit unions are not licensed, Mr. Mandziuk, because none charges more than 1% per month on an outstanding balance, and a licence is not necessary.

Mr. MANDZIUK: You are limiting yourself to the licensed money lenders.

Mr. MACGREGOR: That is correct.

Mr. MACDONALD: Just one final question. Most of the major small loan companies have related insurance companies, do they not?

Mr. MACGREGOR: Only a few, Mr. Macdonald. There are some, and that is another rule we insist upon, that where a licensee provides life insurance facilities for its small loan borrowers, the insurance must not be placed in any insurance company in which the licensee or any shareholder and so on has a proprietary interest. In other words, they cannot make additional money on insurance through an associated company.

Big lenders like Household and Beneficial, they have no insurance company and they place their insurance with recognized life insurance companies.

Mr. IRVINE: Mr. Chairman, you made a statement that credit unions—with which I have had no experience—charge 1% per month.

Mr. MACGREGOR: I said that is the maximum.

Mr. IRVINE: Is this on the reducing balance monthly?

Mr. MACGREGOR: Yes. Some of them charge much less than that.

Senator VAILLANCOURT: Caisse Populaire charges less than 1%.

Mr. IRVINE: The Chairman said that he did not want to go into a certain matter, and that is fine, but some of these acceptance companies have departments like finance companies and generally handle paper on automobiles, appliances or other products of that type. They have as a custom what they call either a hold-back or reserve or something of that nature, which goes to the credit of the dealer involved who turns the conditional sale contract over to them. This is something which sometimes runs to 10 or 15% of the charges involved in the contracts. Do you think this is a fair break for the consumer, or am I putting you on the spot?

Mr. MACGREGOR: Not necessarily, sir. My only hesitation in answering it is that we have no official duties whatever in connection with that type of business. It is well known nevertheless that in many cases the dealer who sells the paper to the acceptance company shares in the finance charges, and that, of course, is one of the problems in that field.

Competition is such that dealers are able to exert pressure, strong pressure sometimes, on the acceptance company to up its share.

Mr. IRVINE: Is this outside of the terms of reference of this committee?

Mr. MACGREGOR: I would not think so. I would rather let finance companies speak for themselves on that and explain their practice.

Co-Chairman Senator CROLL: They perhaps will at a later date. Any other questions?

Mr. URIE: While there are constitutional difficulties in your field, does your department as a matter of practice in relation to these licencees, examine the advertising from time to time, the nature of the contracts they submit to their borrowers, and so on?

Mr. MACGREGOR: In respect of small loans, yes, from the time the licensee is first licensed we get proof copies of proposed advertising, and always copies of the contracts. In fact the licencees are generally anxious to have us look at them to comment on them.

Mr. URIE: It is a requirement you have?

Mr. MACGREGOR: It is not in the act. But as a matter of practice we do it.

Mr. URIE: You have had no difficulty in that regard from the companies?

Mr. MACGREGOR: None that I can recall at all. They have been very co-operative in their advertising. I must say our disposition has been to keep them away from superlatives and anything of any unjustifiable nature.

Mr. URIE: Does your department receive many complaints from borrowers or institutions or anything of that nature with respect to deceptive advertising or misleading advertising?

Mr. MACGREGOR: Not in respect of advertising, Mr. Urie. I would say that the majority of complaints we receive do not relate at all to small loans under the act—do not relate in fact to larger loans, but rather to conditional sale agreements. The usual type of complaint arises where a purchaser wants to prepay his contract, pay up the balance. Perhaps he is going to re-finance it somewhere else, or he has cash, and he thinks he is not getting as large a credit as he expected. That is the main type of complaint we get, and yet it is something we have nothing to do with.

Mr. URIE: Is there a large volume of those?

Mr. MACGREGOR: I would not say a large volume. I would say that type of complaint outweighs, by quite a margin, any complaints we get about small loans. In fact, we get practically no complaints about small loans under the act.

Mr. HALES: Do you receive complaints on this superlative type of advertising of those companies that do not come under your jurisdiction, I suppose? They send them into your department but yet you are not—

Mr. MACGREGOR: I do not recall any complaints of that kind. Mr. Urquhart is here. He deals with that.

Mr. URQUHART: Not often, very irregularly.

Mr. MACGREGOR: I would say the main type of complaint we get relates to conditional sale agreements that are prepaid before the end of their normal term.

Mr. URIE: Any complaints in relation to conditional sales agreements as to the amounts of charges per se?

Mr. MACGREGOR: No, I could not say that we have received any particular complaints about the initial level of charges. Rather it is the credit that he gets.

Mr. URIE: Ever have any complaints on the amount of charges shown in dollars and cents rather than percentages?

Mr. MACGREGOR: None that I can recall.

Co-Chairman Senator CROLL: Gentlemen, have we any further questions, Mr. MacGregor has raised some matters here before us that are vital to this committee.

We are going to have the Chief of Research Department, Bank of Canada, Mr. Bouey next. You have got a copy of his presentation and it is intended that he should not read this but that he will go over it in his own fashion. I would ask you if you possibly could to read that submission. It is very interesting and informative.

Senator THORVALDSON: Has it been distributed, Mr. Chairman?

Co-Chairman Senator CROLL: Yes, you will have it in your committee files. It was distributed on Thursday.

This committee will adjourn until next Tuesday at the same hour.

The committee adjourned.



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 3

TUESDAY, JUNE 16, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

WITNESS:

Mr. Gerald K. Bouey, Chief, Research Department, Bank of Canada.

APPENDIX

A—Brief from the Bank of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll
and
Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard	Lang	Smith (<i>Queens-Shel-</i>
Croll	McGrand	<i>burne</i>)
Gershaw	Robertson (<i>Kenora-Rainy</i>	Stambaugh
Hollett	<i>River</i>)	Thorvaldson
Irvine		Vaillancourt—12.

Messrs.

Bell	Greene	Matte
Cashin	Grégoire	McCutcheon
Chrétien	Hales	Nasserden
Clancy	Irvine	Orlikow
Côté (<i>Longueuil</i>)	Jewett (Miss)	Pennell
Crossman	Macdonald	Ryan
Deachman	Mandziuk	Scott
Drouin	Marcoux	Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

"With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative."

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

"On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honour thereof."

LEON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, the the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gen-dron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, June 16th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw, Irvine, Robertson (*Kenora-Rainy River*), and Stambaugh,
and

House of Commons: Messrs. Greene (*Joint Chairman*), Bell, Chrétien, Clancy, Hales, Macdonald, Mandziuk, Nasserden, Ryan and Scott—(15).

In attendance: Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Macdonald, it was Resolved to print the brief submitted by the Bank of Canada as appendix A to these proceedings.

The following witness was heard:

Mr. Gerald K. Bouey, Chief, Research Department, Bank of Canada.

At 12.05 p.m. the Committee adjourned until Tuesday, June 23rd, 1964, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, June 16, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Senator DAVID A. CROLL and Mr. J. J. GREENE, M.P., Co-Chairmen.

Co-Chairman Mr. GREENE: Honourable members, we have as our witness this morning Mr. G. K. Bouey, Chief, Research Department, Bank of Canada. He has prepared a statement on consumer credit which he is about to deliver to the committee.

I wonder if we could have a motion at this time to incorporate this report of Mr. Bouey into the proceedings of this committee? Each member has a copy of the statement, I believe.

It was duly moved that the statement prepared by Mr. G. K. Bouey on consumer credit, dated June 9, 1964, be implemented as part of the minutes of this committee.

Hon. Senators and Members agreed. (*See Appendix "A"*)

Co-Chairman Mr. GREENE: My co-chairman, Senator Croll has suggested an agenda for the ensuing sittings of this committee which I think I should draw to the attention of honourable members of the committee. It is as follows.

On June 23 it is proposed that evidence be heard from the Ontario Credit Union League.

On June 30 it is proposed that this meeting be left for an in-camera discussion of the committee referable in part, I think, to the constitutional matters we have been appraised of, and the general ambit of the committee hearings which would be based upon the limitations or breadth permitted to us in the light of the constitutional limitations we have heard about.

On July 7 it is proposed to hear from the Canadian Federation of Agriculture.

On July 14, from the Credit Union National Association.

On July 20, from the Retail Merchants Association of Canada.

That is the agenda for the ensuing month. I wonder if honourable members have any discussion, criticism or advice in regard to this proposed agenda.

Mr. HALES: Mr. Chairman, I presume the steering committee has been advised of this program and they are agreeable to it?

Co-Chairman Senator CROLL: Originally we gave them a list of the people who have applied to be heard, and we have given them these dates. You will notice we have not gone beyond July 21. That seems like a cut-off date. I just guessed we won't be here beyond that date.

Mr. HALES: I hope you are right, Mr. Chairman.

Co-Chairman Senator CROLL: There are other people asking to be heard, but we have just held at this program for the moment, waiting to see when they would fit in.

Co-Chairman Mr. GREENE: I will now call upon Mr. Bouey, our witness for today.

Mr. Urie, our counsel, is not here today by virtue of illness, and I wonder Mr. Bouey, how you propose to give your evidence.

Mr. G. K. Bouey, Chief, Research Department, Bank of Canada: I thought, Mr. Chairman, I would just go over the highlights of my statement.

Co-Chairman Mr. GREENE: I think that is a good suggestion. If it meets with the approval of honourable members you may proceed.

Mr. BOUEY: Mr. Chairman, honourable Senators and Members, what I have tried to do in the statement which I have prepared and which has been distributed to committee members was to bring together in one place much of the readily available information on consumer credit which I thought you might find useful to have at this fairly early stage of your inquiry. Nothing that I have to say is really new; it is really a matter of consolidating information now available in various places. Besides covering the field of consumer credit statistics the paper reviews the growth of consumer credit over the last twenty-five years or so and provides some information on consumer credit charges and consumer credit controls.

I believe that I was invited to prepare this statement because it is known that as part of the job of keeping informed on the overall credit picture the Bank of Canada does keep track of this kind of information. Indeed, some of the statistics are published in the monthly Statistical Summary of the Bank of Canada; however, the Bank has no responsibilities or powers directly related to consumer credit. Much of the information in the statement comes from the recent report of the Royal Commission on Banking and Finance, submissions of financial institutions to that Commission, and, of course, the statistical material which is collected and published by the Dominion Bureau of Statistics.

In this paper I start out by attempting a definition of consumer credit in these terms:

In principle, consumer credit might be defined as credit advanced to individuals to finance their expenditures on goods and services as consumers. It should therefore exclude credit extended to businesses, for example credit used to finance the building up of inventories or expenditure on buildings and equipment. Expenditure by individuals on housing is also generally regarded as a form of capital investment rather than consumption expenditure, so that borrowing to finance houses is excluded. Finally, credit used to acquire financial assets such as bonds and stocks would not qualify as consumer credit under this definition.

I then turn to some of the problems of measuring consumer credit.

Mr. MANDZIUK: Mr. Chairman, are we permitted to ask questions following the reading by Mr. Bouey of every section or paragraph of his statement?

Co-Chairman Senator CROLL: While it is fresh in your mind, yes, go ahead. That might be interesting.

Mr. MANDZIUK: Mr. Bouey is saying that consumer credit is credit extended for things that the borrower consumes. Is that what your definition is restricted to?

Mr. BOUEY: Yes, that is right.

Mr. MANDZIUK: So that the financing of an automobile would not fall into that category?

Mr. BOUEY: Yes it would. We would consider an automobile a form of consumption.

Mr. MANDZIUK: Mr. Chairman, are we going to invite the various finance companies dealing in advances for financing motor vehicles, companies like Industrial Acceptance, General Motors Acceptance Corporation, Ford Motor Credit Company? If those are within our field, Mr. Chairman, I would suggest we ask them to come before us. I think a lot of us are interested in how they function.

Co-Chairman Senator CROLL: Mr. Mandziuk, the Federated Council of Sales Finance Companies of Canada, which is a federation of all those companies, has asked for an opportunity to be heard, so it was reported to me yesterday. This organization wants to be heard but there is no room on our agenda until after July.

Mr. Bouey, do you remember the question Mr. Mandziuk making the statement that consumer credit is credit to purchase something people consume, and you agreed. Then he asked you if automobiles were included in consumer goods, and it struck me we were not getting to the point.

Mr. MANDZIUK: I realize there must be a dividing line somewhere.

Mr. BOUEY: This is a rather arbitrary distinction made for statistical purposes. Automobiles and furniture and so on are considered as consumer goods.

Mr. MANDZIUK: But investments are not?

Mr. BOUEY: Not investments.

Senator STAMBAUGH: It is confined to things that will wear out?

Mr. BOUEY: In a reasonably short time, yes. Senator Stambaugh.

Senator STAMBAUGH: Furniture and things like that are considered to be consumer goods?

Mr. BOUEY: Yes, otherwise you would be left with only things that last for a very short time, such as food.

Co-Chairman Mr. GREENE: Checking our list of persons who were invited, it does not appear that the automotive finance people were specifically invited.

Mr. MANDZIUK: That is the reason I made the suggestion, Mr. Chairman.

Mr. MACDONALD: Mr. Chairman, I think the Federated Council of Sales Finance Companies is made up of all the major finance companies. I cannot understand why an individual company would need to come here to tell us of these practices when they are coming as a group.

Mr. MANDZIUK: But all the finance companies are not members of the federation.

Mr. MACDONALD: Some seventy-five per cent are.

Mr. MANDZIUK: I doubt if subsidiaries of General Motors or Ford belong to the federation.

Mr. MACDONALD: I am pretty sure General Motors Acceptance Corporation is a member. However, we will find out when they come here.

Co-Chairman Mr. GREENE: Does that federation include only the lending finance people, or is it the car people?

Mr. MACDONALD: Beneficial, Household and others are members of it.

A MEMBER: All these questions are answered in this brief.

Mr. SCOTT: Mr. Chairman, I have a suspicion that many of the abuses which take place in the automobile financing business are practised by people outside the association. I am not sure at this stage how we could do it, but I think we should have these people come here.

Co-Chairman Mr. GREENE: I wonder if it would be helpful to have our permanent staff prepare a list of those companies who are members of the Federated Council of Sales Finance Companies and all the major companies who are not members.

Mr. MANDZIUK: I would agree to that, Mr. Chairman.

Mr. BOUEY: Mr. Chairman, after giving a definition of consumer credit I then turn to some of the problems in measuring consumer credit statistically. Consumers have various sources of funds and various kinds of expenditures. They obtain funds from current income, or by disposing of financial assets which they already have, or by borrowing. On the other side, they spend money on consumer goods, some of which are durable, such as automobiles, refrigerators or furniture, they acquire houses and they may acquire financial assets such as bonds or stocks. So when we attempt to say how much of the total expenditure is financed on consumer credit you will see there is likely to be a certain amount of arbitrary matching off of the sources of finance with this sort of expenditure, and in the statement I draw attention to some of the problems that arise in this connection. For example, mortgage loans are regarded as being used to finance expenditures on houses but they can also be used to finance other kinds of expenditures.

It is possible for people to borrow on a mortgage somewhat more than the amount they would normally borrow if they did not wish also to buy some consumer goods. Or, they may do some re-financing of houses in order to finance the consumption of consumer goods. In practice we find it necessary to regard mortgage financing as financing capital expenditures. It is not always easy to decide what is consumer expenditure and what is business expenditure, especially in cases where people have their own small businesses. Credit used to finance passenger cars is normally taken to be consumer credit even though we know in some instances the car will be used for business purposes. Certain forms of credit are not included because the information is simply not available. Information as to credit extended under certain credit card arrangements is not available. There are no statistics for what is known as service credit such as that extended by doctors and lawyers, pawnbrokers, and credit extended through personal channels, that is, by relatives and friends.

One result of the difficulty involved in determining exactly what amounts of credit should be classified as consumer credit is that the Bank of Canada publishes no overall total labelled "Total Consumer Credit". However, despite the problems that I have outlined I think the coverage of the information which is published by the Bank and by the Dominion Bureau of Statistics is adequate to provide a good indication of the trend of consumer credit. It is the trend that we are inclined to be most interested in.

Mr. Chairman, I might just go over some of the kinds of consumer credit, using as a framework the information published in the monthly Statistical Summary of the Bank of Canada.

On page 4 of the statement, the figures in the table indicate the amounts outstanding at the end of last year. The first one listed, instalment finance companies, often referred to as sales finance companies, shows that the amount of credit to consumers outstanding at that time was \$873 million. I have included on the same page a very short description of the business of instalment finance companies which is taken from the report of the Royal Commission on Banking and Finance. Perhaps I had better read that excerpt.

This is from the report of the Royal Commission on Banking and Commerce, page 205.

Sales finance companies differ from other financial institutions, including the small loan companies, in that they frequently do not lend

directly to the purchasers of the goods being financed. Instead of applying to an institution for credit and receiving the funds in cash to make purchases or pay off bills, the borrower using finance credit rarely deals with the lending company or actually receives cash. The credit is made available by the auto dealer or other retailer at the time of sale in a single transaction with the customer, who signs a conditional sales contract or some other form of deferred payment agreement with the dealer. The dealer then sells the contract to a finance company, which will collect the payments on it, thus completing the transactions by which the company effectively extends credit to his customer. From the customer's point of view the result is the same as in other credit dealings—he has made his purchase and will pay for it over the following months—but the mechanics doing business are entirely different.

In other words, Mr. Chairman, the customer does not ever have his hands on the cash.

Mr. CLANCY: You say that the dealer sells this paper to a finance company. Let us assume that both of them expect to make a profit. I would like to know what is the margin on this sale of paper? Is this not like discounting a note at the bank?

Mr. BOUEY: I am afraid that I could not tell you that.

Mr. CLANCY: After all, it is the consumer who is being hooked on the transaction.

Mr. BOUEY: Mr. Chairman, I do list later on what the total charge to the consumer amounts to but I cannot tell you the division between the company and the dealer. However, I think this question might be directed to the finance companies themselves.

Mr. HALES: Just one other question, Mr. Chairman. Perhaps this is not relevant at this particular moment, but later on in our discussion it may be. A dealer sells his paper or contract to a finance company, and let us suppose the consumer finds out that the car he bought was not what it was represented to be; he finds out that he bought a "lemon", as it were. He has no recourse back to the dealer, for the dealer loses his responsibility once he sells the paper or contract to the finance company. Therefore, the buyer of the car cannot come back on the dealer for having sold him a poor car. That is as I understand it.

Mr. MANDZIUK: Mr. Chairman, maybe we are getting off the subject, but the dealer is an endorser, and should the customer fail to live up to his contract, that is to make his payments, the finance company has both of them hooked, both the customer who purchased the automobile and the dealer who sold it to him. The dealer is an endorser of this conditional sale agreement for the balance owing.

Mr. HALES: Yes, but not to make good the sale in a case where the car sold was not a good one.

Mr. MANDZIUK: There is a warranty there by the manufacturer.

Co-Chairman Mr. GREENE: I wonder if it would not be better to explore that with the car companies themselves.

Will you continue Mr. Bouey.

Mr. BOUEY: Referring back to the table showing credit extended to consumers, on page 4, I think you have already covered small loan companies with the Superintendent of Insurance. However, at the end of last year the total amount of credit outstanding amounted to \$753 million in the form of cash loans and \$55 million in the form of instalment credit. As you will notice, these small loan companies deal mainly in cash loans.

Department store credit amounted to \$456 million at that time. We are not able to divide that figure between instalment credit and charge account credit. There was a time when this was possible but now many department stores offer a revolving or all-purpose credit account, which leaves some option with the customer who may pay it off at the end of the month, in which case it is the same as charge account credit, or the customer may take a longer time to pay.

In the case of other retail dealers it is still possible to distinguish between charge account credit and instalment credit which takes the form of conditional sales agreements or other deferred payment plans. The total outstanding at the end of last year amounted to \$632 million.

That is the story regarding finance company and retail dealer credit extended to the consumer.

There is a footnote to that table in reference to oil companies' credit cards. The balance outstanding on these amounted to \$54 million.

Co-Chairman Senator CROLL: How do you distinguish between small loan companies' instalment credit and cash loans? What is the distinction?

Mr. BOUEY: In the case of the cash loans, cash is actually advanced to the customer and he goes and makes his purchase. In the case of their instalment credit business—that is the same as the conditional sale agreements used by the sales finance companies; some companies are in both businesses—the cash is not advanced to the customer.

Co-Chairman Mr. GREENE: In order that we may be clear on this would you say that in car financing and consumer credit extended by banks, neither of these is shown on this table on page 4?

Mr. BOUEY: In the case of instalment finance companies, most of the outstanding amount is for car financing. Of the total balances outstanding on consumer goods of \$873 millions at the end of 1963 \$687 million, or 79 per cent, represented automobile financing. In addition some of the advances made by small loan companies are obtained for the purpose of financing a car. On page 6 of my statement I refer to an analysis made by the members of the Canadian Loan Association in their submission to the Royal Commission, indicating that 11 per cent of the borrowings in 1960 were to finance the purchase of automobiles.

Co-Chairman Mr. GREENE: So the table on page 4 generally covers the entire field of consumer credit with the exception of that provided by banks.

Mr. BOUEY: By banks and some other financial institutions which I will come to now.

If you will look at page 7 you will pick up the rest of it. The first part of this table shows loans made by the chartered banks. At this stage I should point out I have not so far attempted to draw a dividing line between consumer credit and other types of financing.

Under the heading, Chartered Banks personal Loans, the first part, those fully secured by marketable bonds and stocks, \$392 million. I do not think that item should be counted as consumer credit. Then, home improvement loans made under the National Housing Act, \$72 million. That again is something we do not normally regard as consumer credit because it is associated with the financing of housing, and once again the division is a bit arbitrary. It must be noted that in obtaining any kind of a loan a consumer puts himself in a better position to buy consumer goods as well as other things.

The "Other" item here, \$1,432 million is one that we regard as consumer credit. We have a certain breakdown. The first is that secured by household property, \$370 million, of which secured by motor vehicles, \$319 million. These are the cases where actual security is taken. It may very well be there

are other cases where the bank makes a loan and the borrower uses the proceeds to finance an automobile, but if the automobile is not taken as actual security we put it under the "other" type of loan.

The total of chartered banks' personal loans of the kind that might be considered as consumer credit amounts to \$1,432 millions. Perhaps I should say, as I state in the brief, that there are, of course, some loans in there that are likely not consumer credit. We know there are some very large loans, much too large to be considered consumer credit and we also know that the banks do make unsecured personal loans to finance the purchase of houses. So it is somewhat arbitrary to say that the whole thing is consumer credit.

Then I list some of the other financial institutions, as follows: Quebec savings banks loans other than mortgage loans to individuals; credit union loans other than mortgage loans; life insurance companies' policy loans against cash surrender value of policies.

These are the kinds of credit for which information is readily available.

As mentioned earlier, in our published material there is no total for consumer credit. No doubt you will wish to decide yourselves on which among the various kinds of credit I have listed you wish to look at further and you may not wish to draw a line between consumer credit and other credit to individuals.

Mr. Chairman, I thought that it might be useful to select various types of credit that might be regarded as consumer credit in order to obtain a total called "consumer credit". What I have done is to take the total amount of finance company and retail dealer credit extended to consumers, shown in the earlier table, and I have added to that chartered bank "unsecured" personal loans, loans of credit unions and caisses populaires, unsecured loans of the Quebec savings banks, and life insurance companies' policy loans, and said that I am going to call that consumer credit. I have also included the amounts outstanding under oil companies credit cards with retail dealers' charge accounts. This solution turns out to be quite close to the one used by the Royal Commission on Banking and Finance. The difference is not at all important in terms of the trend of the total figures. I have shown the figures in a table on page 10 of my statement. At the end of 1963 the total of these types of credit amounted to \$5,292 million. You can see there the distribution of the total by the various types of lenders, for the years going back to 1938.

Co-Chairman Senator CROLL: Those figures seem to be rising about \$400 million every year since 1956 or 1957.

Mr. BOUEY: Yes. The growth rate has been pretty high. Working it out over the last ten years the compound rate is about ten per cent per year.

Co-Chairman Senator CROLL: How does that compare with the American picture?

Mr. BOUEY: It is a little higher. In the United States it works out to about 8.5 per cent.

Co-Chairman Senator CROLL: And as for the British figure?

Mr. BOUEY: I cannot tell you that. Other countries do not have their consumer credit statistics in this form.

The statement continues with a review of the growth of consumer credit over the last twenty-five years or so and particularly in the post-war period.

Co-Chairman Mr. GREENE: Before we leave the overall chart, are there any theories or philosophies with respect to the growth, the healthy extent or unhealthy extent of growth in this area, and if so who has written papers in this regard? Have you any information on that?

Mr. BOUEY: There is something in the report of the Royal Commission on Banking and Finance. Actually I come to that a bit later in my statement.

Mr. SCOTT: Are there any statistics available on the rate of repossessions, defaults, foreclosures that take place in any of these areas?

Mr. BOUEY: Not for the whole field. In the report of the Superintendent of Insurance dealing with the Small Loans Act there is some information, but there is no such information that I am aware of with regard to banks and other organizations. For the whole picture we do not have that information.

Co-Chairman Senator CROLL: Mr. Bouey, two or three times in this report there appears a statement that a spurt in the economy comes particularly with the greater sale of automobiles. Do you recall that?

Mr. BOUEY: In this statement?

Co-Chairman Senator CROLL: Yes.

Mr. BOUEY: No, I do not say that.

Co-Chairman Senator CROLL: I have been reading something else then.

Mr. HALES: Just before you leave this chart, I notice life insurance companies have not extended credit nearly as fast as the overall total. Have you any observations to make on that?

Mr. BOUEY: I really have not, Mr. Chairman, except to say that it must be the case that individuals are not terribly keen on borrowing on life insurance policies.

Mr. HALES: Borrowing their own money?

Mr. BOUEY: Because the rate is relatively low as far as this kind of credit goes. I am afraid, Mr. Chairman, that I cannot say anything other than that this is a fact that one observes, and I cannot explain it.

Co-Chairman Mr. GREENE: It is quite noticeable.

Mr. BOUEY: It is. This chart is drawn on a ratio scale, and proportionate increases show up in the same way. That is, a doubling, say, from \$200 million to \$400 million, shows the same slope as the line for a doubling from \$1 billion to \$2 billion over the same period.

Mr. HALES: Take a case where a person has his own life insurance policy and an equity in it. They can go to the insurance company and make the loan at a lower rate of interest than they can from these other companies, but they are failing to do that.

Mr. BOUEY: We do not really know the financial position of individuals in great detail, that is, of the people who do use consumer credit on a fairly large scale. We do not know what their position is with regard to life insurance, whether they have a large cash surrender value which they can borrow against or not, but it does look as if they are not using that form of credit as much as they theoretically could.

Co-Chairman Mr. GREENE: Either that, or as a group they are not ones who have increased their borrowing over the years.

Mr. BOUEY: That is right; we do not have a breakdown.

Mr. HALES: It might be, Mr. Chairman, that when we make our report we should keep this in mind and draw to the public's attention that they should make greater use of that particular field. That is all I have to say.

Co-Chairman Mr. GREENE: When we have the insurance companies before us we might explore that question further.

Senator STAMBAUGH: Mr. Chairman, one reason for that situation is this, that I think life insurance borrowing is discouraged by the companies, whereas these other loan companies encourage it. I think that makes quite a difference. If you go to a life insurance company to borrow on your policy they try to give you as little as possible or discourage it entirely.

Mr. BOUEY: I think it is quite likely that individuals regard life insurance as a form of saving and want to keep it that way.

Mr. MANDZIUK: Is not the borrower insured by many of these sources which extend credit so that in the event of death the lender is paid off? That is the case with credit unions. I think some of the finance companies make the same arrangement, whereas in borrowing from your insurance company the loan is deducted from the proceeds and, in the event of the death of the insured, that is deducted from the face value of the policy. So as far as I can see, it is not good business to borrow on your insurance policy.

Co-Chairman Senator CROLL: Is it not the case that the insured tries to keep from touching the policy at any time because from what is stated on page 14 they charge only six per cent—they are the cheapest of the lot. But there is a hesitancy about touching that asset which is for the wife and kiddies.

Co-Chairman Mr. GREENE: I think Mr. Hales has a good point in suggesting this is an area which can be investigated with the insurance companies, for it seems contradictory for people to be lending to life insurance companies at a rate of five per cent and borrowing at twenty per cent from loan companies. If they are the same group of people it is an area that bears inspection.

Will you continue, Mr. Bouey.

Mr. BOUEY: Mr. Chairman, I then reviewed the trend of consumer credit from the period just before the second world war to the present. There were two periods in which consumer credit controls were in force, controls as to the size of the down payment and the term of the repayment. Under the War Measures Act, the Wartime Prices and Trade Board was given jurisdiction over consumer credit and instalment buying. So far as instalment credit was concerned a minimum cash down payment was established at about one-third, and a maximum period for repayment from six to fifteen months depending on the type of article and the amount financed. That was the first period when the consumer controls of this type were established. They were eased in 1946 and revoked in 1947.

At the time of the Korean war when there was some worry about inflation, the Government implemented consumer credit controls under the Consumer Credit (Temporary Provisions) Act, and tightened them further in early 1951, making them more stringent than during World War II. A fifty per cent down payment requirement with a twelve month maximum repayment period was imposed on automobile financing.

There were other policies which tended to operate in the same direction at that time. The chartered banks undertook, after consultation with the Bank of Canada, to scrutinize vigorously applications for credit and agreed not to increase further their loans to sales finance companies. In addition, the government raised sales taxes on consumer durables. This meant that there were several things operating in the same direction so it is not possible to isolate exactly the effects of any one measure. In total they did have the effect of stopping the rise in consumer credit and during 1951 there was actually a decline.

Co-Chairman Mr. GREENE: Mr. Bouey, if I may interrupt—do I take it from this presentation that the Bank of Canada then did have some difficulty or concern in controlling monetary policy, which is normally done through banking channels, by reason of the large impact on the ebb and flow of money caused by extension of consumer credit by non-banks.

Mr. BOUEY: My impression is that the Korean war and the heavy defence program posed a threat of inflation and there was resort to special measures. You may recall that the banks, in agreement with the Bank of Canada, agreed not to increase the total of their loans. There was a ceiling on bank credit for

a while. I think that this was an emergency situation and special measures were considered necessary, including consumer credit control.

Co-Chairman Mr. GREENE: Does the growth of the consumer credit industry impair in any way effective control over monetary policy by the Bank of Canada?

Mr. BOUEY: I think perhaps I would like to leave that question to the end because I do go into that again.

Co-Chairman Mr. GREENE: I notice in this section there is reference to continued control by an indirect method of persuading chartered banks not to lend to the loan companies. Is that a correct interpretation of that?

Mr. BOUEY: That is right. The authorities at that time obviously took the view that the situation did require some special measures in addition to the ordinary workings of monetary policy.

Mr. HALES: Further to the chairman's question, there is the aspect of consumer credit as it affects our monetary and banking system. Can this be correlated or connected with any steps which the Bank of Canada took in 1952 and 1953, when the outstanding consumer credit was increased by \$796,000,000—and increase of 67 percent in two years? A 67 percent increase would be so substantial that I would think the Bank of Canada must have taken some steps.

Mr. BOUEY: Well, I do cover this a bit later. Perhaps I might just say here, though, that the view one would take about the rate of increase in consumer credit would depend to quite an extent on the total pressures on the economy. If the total expenditure were excessive, then any form of credit which was rising rapidly would give some cause for concern. After 1951 things did seem to ease up a bit, and there was not the same kind of inflationary pressure in 1952 and 1953 as there had been. That is why the consumer credit measures were revoked in 1952. Thus, the authorities must have felt at that time that the pressures in the economy were not as severe, even though this form of credit by itself did rise rapidly.

Well, as I just mentioned, these controls were first of all suspended in May of 1952. The act was extended to July of 1953, but no further action was taken under it. Since May of 1952, therefore, consumer credit has not been subject to direct control in Canada. And I mention that it is of interest to note that federal measures to control consumer credit in this country have been limited to war and postwar periods and have been introduced only in periods of emergency.

I continue tracing the growth of consumer credit in the postwar period, and I mention that in 1956, when the Canadian economy was showing evidence of considerable inflationary pressure, the volume of consumer credit, particularly in the form of instalment finance, was expanding rapidly and the Bank of Canada attempted to influence this situation. At that time the Bank of Canada held discussions with representatives of various instalment finance companies with a view to seeing whether some voluntary agreement could be reached among the leaders of the industry to prevent any further significant increase in the total volume of credit of this character. It turned out that agreement of all concerned could not be reached.

This matter was discussed in some detail in the annual report of the Governor of the Bank of Canada for that year, and I have reproduced in the statement the relevant passages.

Mr. BELL: May I ask whether this was generally with the leaders of the industry, or were the banks directly involved?

Mr. BOUEY: These were with the representatives of the major finance companies, the major instalment finance companies.

Mr. BELL: But not necessarily the chartered banks?

Mr. BOUEY: No, these discussions would not have included the chartered banks.

Just to sum up: consumer credit has continued to rise quite rapidly. I mentioned that the average annual rate of growth over the last ten years has been 10 percent. A number of developments have contributed to this. The finance companies have developed new sources of funds—alternatives to bank credit—particularly, the issue of short term paper in the money market. There has been a steady trend, at least up until recently, toward somewhat easier terms, and the banks have become much more interested as a group in consumer lending.

I noted that in the 1930's only one bank had developed a personal loan department. In 1958 banks began to develop their personal lending quite vigorously. A number of them established personal loan plans for the first time. These loans are described here as unsecured personal loans. "Unsecured" means "not secured by marketable bonds and stocks"; it does not mean that in all cases there is no security of any kind. These unsecured personal loans rose rapidly. They more than tripled from the end of 1957 to the end of 1963.

Co-Chairman Mr. GREENE: Are there any statistics available as to how much money the chartered banks have made available to the finance companies and consumer credit institutions over the years? The banks' lending policy towards those institutions has become more generous, I think.

Mr. BOUEY: There are statistics showing the amount of outstanding loans to instalment finance companies and small loans companies. I do not know that you could say what that means in terms of the attitude of the banks, because clearly this is something negotiated by the two parties. I do not think the statistics by themselves will tell you whether the finance companies wanted more credit than that or not.

Co-Chairman Mr. GREENE: Would those statistics be available?

Mr. BOUEY: They are published quarterly in the Statistical Summary of the Bank of Canada.

Co-Chairman Mr. GREENE: Do any of the chartered banks have any direct shareholder interest in any finance companies, and, if so, is that permitted?

Mr. BOUEY: I do not believe they do have any interest.

Co-Chairman Mr. GREENE: Just one other question, Mr. Bouey. Has more foreign money been made available to our consumer credit organizations in recent years?

Mr. BOUEY: I think there has been in total. Some of the short term paper that is sold, is sold in the United States.

Mr. BELL: Most of the finance companies, at least the large ones, give the source of their funds, do they not?

Mr. BOUEY: Well, they show a certain amount of information. I do not know whether you could tell from that just how much they have obtained from American sources. I am not sure that you can tell from that.

Mr. SCOTT: Is there any relationship between the entry of the banks into this field and interest rates charged by the finance companies themselves? Has the bank entry created a competitive situation or has it just filled in the extra need?

Mr. BOUEY: I expect that it has made it much more competitive. During this period in which bank lending has increased very rapidly, the consumer financing business of the finance companies did level off considerably, although it has been rising again in the last couple of years. I do not know what the effect on interest rates or charges has been. I do not think we have enough information to be able to say.

Co-Chairman Mr. GREENE: Would you continue, Mr. Bouey.

Mr. BOUEY: I have next in this statement a small section on consumer credit and personal disposable income. I mention that the comparison is one that is made quite frequently, and in the table on page 19 I show the figures for Canada and the United States for consumer credit outstanding, personal disposable income and the ratio of consumer credit to personal disposable income.

I have also shown the relationship between consumer credit and the gross national product. I should point out that the figures on this table are not quite the same as on the other table. It was necessary to make some adjustments in order to make the figures for the two countries as comparable as possible. However, I do not think that it is possible to succeed in doing this completely, partly because some of the problems of comparability are not statistical but are due to different lending and borrowing practices in the two countries. It is my impression that mortgage credit is used to a larger extent in the United States than in Canada in financing household equipment.

Co-Chairman Senator CROLL: What do you mean by "mortgage credit is used to finance household equipment"?

Mr. BOUEY: Quite often, for example, the stove and the refrigerator are included with the house and are covered by the same house mortgage. Also, there is some evidence that borrowing on mortgages is sometimes used for the purchase of consumer goods. There is some evidence that mortgage borrowing in the United States has been more than enough to look after house financing, that it is being used for other expenditures as well.

Mr. MANDZIUK: How do you define Personal Disposable Income?

Mr. BOUEY: I should have mentioned that this is the total income of individuals less the taxes, the income taxes, which they pay. So it is the income after taxes.

Mr. MANDZIUK: In other words, it is the take-home pay?

Mr. BOUEY: It may not be exactly. For example, there are pension fund contributions as well; however, personal disposable income is the income remaining after taxes. I think I should mention some qualifications here.

Co-Chairman Senator CROLL: Just one moment, Mr. Bouey. Is it a proper inference for me to draw that a man in the United States is more likely than a man in Canada to mortgage his house to buy an automobile? Is that what you are saying?

Mr. BOUEY: I think there is some indication that that happens more often there than here, or at least that it has in the past.

Co-Chairman Mr. GREENE: Do you have any information to indicate whether this is because mortgages are more readily available there, and available with less cost, than is the case in Canada? Or is there any evidence in this regard?

Mr. BOUEY: I think there is some evidence that, typically, down-payments have been a little lower in the United States for house financing, which permits of relatively larger mortgages than in Canada. I think also that perhaps the lenders have been a little more aggressive than on this side.

Mr. HALES: Just before you leave this part concerning banks loaning money to finance companies, apparently the banks refused to extend loans beyond a certain point. So these loan companies went to the foreign markets, particularly the United States market, to get money. This was not in the best interests of Canada, I would say. Then the banks went out and promoted in a rather extensive way their own personal lending activities. Now, did they refuse to cooperate with the loan companies in view of the fact that they were going into the same type of business, or was it for some other reason?

Mr. BOUEY: I think first of all I should mention that the main sources of funds, the main alternative sources of funds, that the finance companies developed were Canadian sources: short term paper in the Canadian market and also some long term debt. However, I do not think that I should try to answer questions about the relationship of the banks and finance companies. I do not think I know enough about that. Perhaps you should ask them.

Mr. NASSERDEN: I would like to know the reason for this statement:

Again in 1959-60, when the chartered banks found it necessary to limit the growth in their total loans they tightened their lending to finance companies on their own initiative.

I was reading from the bottom of page 15, the last paragraph. What is the reason for that statement? What was the reason for them finding it necessary to do this at that time?

Mr. BOUEY: Well, at that time they were experiencing a very sharp increase in the total demand for loans. Their loans were rising very rapidly in total, and in order to finance or accommodate these loans they were having to dispose of some of their holdings of Government securities at a fairly rapid rate until they reached the point where they did not want to go further.

Also during that period, if my recollection is right, their total assets were pretty level at that time, so that their total resources were not increasing, or not increasing very much; that, of course, was connected with monetary policy and the economic situation at the time.

Mr. NASSERDEN: The next statement says that:

One response of the finance companies was to make increasing use of alternative sources of funds.

It did not stop them in their search to find money to lend.

Mr. BOUEY: That is right. This is true of all borrowers from banks. If they cannot get money from banks then they can try to get it elsewhere.

Co-Chairman Senator CROLL: Just to further that question, my recollection is that 77 per cent, or more than 75 per cent, of the finance companies now operating in Canada are United States or American owned.

Mr. BOUEY: I would have to look up the figures. I could not tell you that.

Co-Chairman Senator CROLL: Suppose that I am not right in my figures; nevertheless, the vast majority of our companies are American owned.

Mr. MANDZIUK: You are correct in your figures, I think.

Mr. BOUEY: I think this is true in the case of consumer loan companies, but I would not be sure about sales finance companies. You might wish to look that up. It might be available in their submissions to the Royal Commission on Banking and Finance.

Co-Chairman Senator CROLL: As a matter of fact they went to the United States and made approaches at that time for money.

Co-Chairman Mr. GREENE: I noticed in this morning's paper that a Canadian consumer finance company is merging—I think that was the word that was used—with an American finance company.

Now, in the field of natural resources we have seen considerable concern in Canada that control of our natural resources by foreign-owned, particularly American-owned, corporations might be detrimental to our future national growth. Is there any concern in the Bank of Canada that this kind of control over our consumer credit companies of various kinds by American corporations is any sort of a threat or a menace or a matter to be watched, even, in our future economic development?

Mr. BOUEY: I do not think I can get into the matter of foreign control. I could not answer that question on behalf of the Bank.

Co-Chairman Mr. GREENE: The Bank of Canada has no thought in this regard?

Co-Chairman Senator CROLL: He is saying that he cannot express an opinion on that.

Co-Chairman Mr. GREENE: Well, who could? That is what we are here for. Either the Bank has no policy or thoughts in this regard or it has admonitions which it wishes to bring to the attention of Parliament.

Mr. BOUEY: Well, the Bank of Canada has no direct responsibility in the consumer credit field. As to its thoughts in this matter, I am afraid I really cannot speak for the Bank.

Mr. SCOTT: Mr. Bouey, I do not want you to express opinions, but I wonder if there is a trend for the Canadian finance companies to receive greater and greater amounts of their capital from the United States or other sources outside of Canada?

Mr. BOUEY: I could not answer that question.

Mr. SCOTT: Are there any statistics, or is there any statistical source which could show us the amount of capital that is coming in for this purpose?

Mr. BOUEY: I think that the examination of the financing of these companies probably would reveal that. I have not looked at that myself.

Mr. SCOTT: Perhaps another person would be able to do that for us. It would be very useful.

Mr. BOUEY: Well, I would think that the associations would probably be better able to do it. You see there are problems not only of where securities are sold but of how much of the funds are obtained from parent companies, and so on.

Co-Chairman Senator CROLL: May I say, Mr. Scott, that our accountant can undertake that work and bring us the information. Mr. L'Heureux can get that information for us.

Mr. SCOTT: Yes, that would be fine.

Mr. CLANCY: We are in the position of having the outside investor coming into Canada, but perhaps the accountant might also provide figures to show how much money was invested in the same kind of business by Canadians, and by how many Canadians.

Co-Chairman Mr. GREENE: Where would that kind of material or information be most readily available, Mr. Bouey?

Mr. BOUEY: There is a good deal of information on the assets and liabilities of these companies, but whether or not you could really get enough to show completely the sources of financing by country, is something which would have to be looked into.

Co-Chairman Mr. GREENE: Possibly, Mr. Clancy, that is again something to leave to the accountant.

Mr. CLANCY: I want to bring this up: suppose a small loan company approached me as an individual and said that if I financed a second mortgage they would give me the bonus. Now, how many cases of that kind occur in this country? They collect the money and the interest but I get the bonus. In other words, if I invest say \$800 I will get \$200 profit in a very quick transaction.

Co-Chairman Senator CROLL: From the finance company?

Mr. CLANCY: Yes, they approach me on a second mortgage and I get the bonus.

Co-Chairman Senator CROLL: I never thought finance companies gave up bonuses.

Senator GERSHAW: On page 19 of the brief, there is the statement that the outstanding consumer credit in Canada is about \$5 billion, whereas in the United States it is about thirteen times that.

I wonder if the witness could give us any comparison with other countries, or express an opinion as to whether that is getting dangerously high or not? It is increasing pretty rapidly each year. Is there a danger point? Can you tell us something about that?

Mr. BOUEY: Well, I cannot tell you that it is dangerous, but perhaps I could proceed with this section. There are some relevant comments in it I think.

I pointed out in the paper that there are difficulties in making these comparisons. This is on page 17. There are difficulties in making these comparisons between personal disposable income and consumer credit. I say that if per capita income is rising, the amount of income available to support increased debt may be rising proportionally more than personal disposable income. If repayment terms are lengthening, the debt burden expressed as a monthly charge against income may not be rising nearly as rapidly as total consumer credit.

I might just read the rest of this page. This is page 17.

One must also bear in mind that the consumer credit figures show only a part of the total financial position of consumers. On the liability side mortgage debt is in fact much larger than consumer credit. The Royal Commission on Banking and Finance estimates that the ratio of consumer credit and mortgage credit combined to personal disposable income was fifty per cent in 1962. That is a much larger ratio than consumer credit only, which we work out at about sixteen per cent. Taking assets into account as well, consumers as a group may in fact be improving their net financial position by accumulating liquid assets at the same time that consumer credit is rising fairly sharply. A great deal of statistical information would be necessary, I am afraid, if one were going to make a continuous appraisal of the position of consumers. Even if data on consumer assets and liabilities were readily available by income group, the problem would still be a difficult one since any such grouping must include many who are in very strong financial positions as well as those who may be somewhat over-extended. A survey of personal finance conducted by the Royal Commission on Banking and Finance provides some data by income and by age group. After noting that there was evidently some understatement of the reported level of instalment debt, the report goes on to say:

...the survey does not indicate that consumers generally are in an over-extended financial position. Indeed, a large part of the repayment commitments incurred with such debt merely displaces previously unrecorded, but nevertheless real, commitments for monthly rent, laundry, or other services. This is not to argue that there are not some households in an over-extended position, either owing to poor financial planning or over-purchasing, but merely to state that the overall position of households does not suggest weak management or a vulnerable financial position.

Mr. Chairman, I do not think I can add to that. I think it is the case that the statistical information available can tell you what has happened to the trend of consumer credit but it does not tell you anything very much about whether consumers are getting into a vulnerable position or not.

Mr. NASSERDEN: Actually that statement says that they are not taking too much of a risk in extending this credit.

Mr. BOUEY: This statement by the Royal Commission?

Mr. NASSERDEN: Yes.

Mr. BOUEY: It is really talking about consumers as a group.

Mr. NASSERDEN: But it indicates the overall position of the service rendered is on a basis where there is comparatively little risk.

Mr. BOUEY: I would not interpret it that way myself. I would think that even though a group of consumers might well be in that position, that group might include some individuals who were certainly risks. I think the kind of figures that would tend to show this type of information are those that become available with some lag; that is, the amount of debts that have actually gone bad.

Mr. NASSERDEN: But that section, nevertheless, indicates that the overall picture, as far as risk is concerned, is not bad.

Mr. BOUEY: Well, it indicates the position of a group of consumers.

Mr. NASSERDEN: That is what I said, the overall picture is not bad.

Mr. SCOTT: Mr. Chairman, maybe our accountant could try to scan the balance sheets of some of these loan companies and ascertain the ratio between losses and overall volume to help us decide whether they are getting too large a return in relation to the risk.

Mr. CLANCY: And in your research you might put in the cost of doing business. The small loan company is taking the risk on people who cannot go to their banks, and it takes a lot of time to recover a TV set. Many who are earning big salaries will buy a TV set on credit and then walk out and telephone the loan company to come and take it back.

Co-Chairman Mr. GREENE: Some of that evidence we can get pretty effectively from the companies themselves.

Mr. CLANCY: I think that would be very good, indeed.

Co-Chairman Mr. GREENE: That is, when they appear. If they do not want to come we can subpoena them.

Mr. BOUEY: Perhaps, Mr. Chairman, I might go on to the next section which deals with consumer credit charges. I have listed some information here which I thought you might find useful. My impression is that you have already covered this with the Superintendent of Insurance. The rates charged by the chartered banks in their personal loan plans, consumer loan companies and sales finance companies, credit unions and caisses populaires.

Co-Chairman Senator CROLL: I think there is something new here. For instance, on page 21 of your statement reference is made to the report of the Royal Commission on Banking and Finance. You might indicate what the recommendation was, or is.

Mr. BOUEY: After setting out the charges made by consumer loan companies, I mention that the report of the Royal Commission on Banking and Finance states that as a general rule all loans under \$1,500 are made at the maximum permitted rates, and that on unregulated loans over \$1,500 the companies' rates seem to average about 1.5 per cent monthly.

The Royal Commission notes that relatively few loans are made in the \$1,000-\$1,500 area, recommends that the maximum size of regulated loans should be \$5,000, that the 1 per cent per month maximum rate should apply to unpaid balances in a range of from \$300 to \$5,000, and expresses the view that all cash lenders should be subject to uniform legislation.

Perhaps you might also wish me to refer to what they say about disclosures.

Co-Chairman Senator CROLL: I would very much like it. We have a few bills before us which deal with that particular subject.

Mr. BOUEY: The Royal Commission says this in discussing the charges of sales finance companies.

It is general practice, and required in some provinces, to disclose the dollar amount of finance charges to customers but the companies do not disclose the effective rate of interest. They have objected to doing so because different methods of calculation give different results and all require some arithmetic skill, because the charges include a necessary fee to cover the cost of servicing accounts and the total charges on small amounts thus work out to high rates of interest, and because they find that customers are more interested in the dollar amount to be paid than in the interest rate. In spite of these objections, we believe there is a strong case for disclosure in both forms so that customers may readily compare the cost of funds in contracts which are not identical as to terms and amount. All generally accepted methods of calculation give closely similar results. Moreover, dealers could be provided with rate as well as charge books and would not have to do the arithmetic themselves; and consumers could hardly suffer from having more information. Since this matter of disclosure applies generally, and not only to finance companies, we shall return to it later.

When the report returns to the subject it states:

... we do recommend that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty. Different methods of calculation yield slightly different results, but there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so: comparability is more important than the precise level. While we recognize that there is great difficulty in calculating the exact charge if use is made of a revolving credit, there is no reason why the customer cannot be shown the effective charge if he follows a typical plan. Borrowers may indeed be more interested in the dollar amounts of the finance charges and monthly payments than in the effective interest rate, but it will certainly not do any harm—and may well do much good—to let them know the effective rate as well. The distribution of approved rate books by the grantors of credit would minimize any difficulties of calculation from their point of view.

And then the report goes on to say that they do not believe disclosure would raise the cash price of an article and thus lead to concealment of the effective interest rates.

Co-Chairman Senator CROLL: Would you mind putting that on the record, because people might read that and not read your submission.

Mr. BOUEY: The report continues:

Nor are we impressed with the arguments that requiring disclosure would raise the cash price of an article, and thus lead to concealment of the effective interest rate. We believe that, as now, effective competition will keep the cash price at realistic levels, but in order to protect against the possibility of merchants using inflated cash prices for the purpose of calculating interest, the Act should contain a provision that the price of the article must be that at which cash transactions are normally carried out. Finally, this legislation should impose stiff penalties for excessive

charges or failure to disclose. At the least, the lender should forfeit all principal and interest on the illegal transactions. In addition, fines should be imposed and, as now, the authorities should have the power to suspend the licenses of lending institutions in cases of flagrant violation.

Mr. SCOTT: Hear hear.

Mr. BELL: At the same time we should point out that Mr. MacGregor in relating the abuses said there were very, very few and they were due to misinformation in many cases.

Mr. BOUEY: The final section of my statement, Mr. Chairman, has to do with consumer credit controls. I have written that in pretty brief form so I think perhaps I should read it.

Governments have concerned themselves with the subject of consumer credit not only in order to protect individual borrowers from usurious charges but also because variations in the down-payments and repayment periods can be used as an instrument of economic policy to influence the total level of spending in the economy. I have already referred to the consumer credit controls that have been introduced in Canada in the past by the federal government.

It is often argued that the demand for consumer durable goods, like other durable goods, tends to be volatile because of the possibility of accelerating or postponing purchases of such goods in the light of changing views about future prospects for business activity or income receipts. Consumer credit may increase this volatility since it adds to the funds available to consumers to purchase durable goods at a time when optimism is high but subsequently adds to the charges against consumer incomes. How important a role consumer credit has played in contributing toward economic instability is a matter that would require a good deal of empirical study. Certainly it seems to have been important at times. For example, in the United States the automobile boom of 1955 was greatly influenced by credit sales. A study undertaken in 1956 by the Board of Governors of the Federal Reserve System states, after an examination of historical evidence on the role of consumer credit:

Consumer instalment credit has often been a factor in changes in the level of business activity, but it has not been the principal cause of such changes.

Even if variations in consumer credit are not a principal factor in changes in the level of business activity it is still possible that its regulation could contribute to the maintenance of economic stability. One argument against such controls is that they are discriminatory. It is claimed that they discriminate against consumers, particularly those in younger age groups, and that they may have important directional effects that discriminate against lending institutions specializing in consumer credit and manufacturers and merchants specializing in the production and sale of consumer durable goods. Some defend consumer credit controls on the grounds that business investment should have priority over consumption in order to promote economic growth. Others question this view, particularly in a period when other forms of expenditure may already be very high and possibly excessive and they urge that the allocation of funds should be determined by the free market. The difficulties of administering and enforcing consumer credit regulations are also used as arguments against their implementation. But it is also the case that consumer credit controls can be quite effective in reducing spending, particularly in the short run. As the Radcliffe committee stated:

These controls have the advantage of securing a sizeable and rapid impact on total demand; but this is a once-for-all effect, which tends quickly to disappear.

The Radcliffe committee expressed the view that consumer credit controls should be included in the combination of policies adopted in times of emergency although there are objections to their use which should narrowly limit resort to them in ordinary times.

In the United States, the Commission on Money and Credit made no recommendation as to the desirability of granting stand-by authority to the Federal Reserve Board for consumer credit controls, stating it was almost evenly divided on the subject.

In its submissions to the Royal Commission on Banking and Finance the Bank of Canada did not deal specifically with the subject of consumer credit but after discussing instruments of monetary policy it did express the view that in extreme situations it would seem unwise to rule out the possibility of evoking direct measures to control the availability of credit, that there may be times at which it is preferable to resort to selective credit controls rather than to allow the inflationary process to proceed without further resistance.

In a discussion of selective credit controls the report of the Royal Commission on Banking and Finance includes the following paragraph on consumer credit controls:

Consumer credit controls also depend for their effectiveness on the inability or unwillingness of consumers to find alternative sources of finance to provide the higher down payments and the shorter terms of repayment which would be required under such controls. If alternative sources can be readily found by consumers, the attempt to block up one channel of lending will merely encourage the widening of another channel and the effect will be felt quite fully on interest rates. Similarly, to the extent that controls over instalment finance lead to the development of organizations which purchase and lease durable goods, demand has not been curtailed but merely redirected. There is also a danger that lenders will evade the restrictions by writing inflated cash values for trade-ins into their contracts and employing other stratagems with the collusion of their customers. As we have mentioned earlier, this is a problem likely to arise from repetitive use of the instrument. Whether used periodically or infrequently, control over consumer instalment finance poses severe problems of adequate administration. In this country there is also some doubt as to the federal government's authority to impose them. In any event the imposition of special excise taxes on consumer durables—which strike at all consumers, not just those who borrowed—may be just as effective in curbing consumer spending, especially if they are thought likely to be withdrawn in the fairly near future.

Later in its report after discussing problems associated with international flows of capital it adds the following:

If these international limitations seriously limit our ability to use general monetary measures to restrain critical inflationary pressures we would not rule out the use of more selective instruments with less interest rate consequences. These might include direct measures to restrict the type and amount of credit granted by financial institutions and changes in the terms of N.H.A. lending. (We do not know whether consumer credit regulations lies within the federal power, and in any event a general increase in sales taxes might be more equitable and just as effective).

Co-Chairman Senator CROLL: Earlier in your discussion you told us that the federal government had imposed during the war certain restrictions on

consumer credit. Then you brought us up to the time when there was a suggestion of an inflationary spiral in peacetime and they imposed restrictions.

Mr. BOUEY: That was actually during the Korean war.

Co-Chairman Senator CROLL: What did they do it under, emergency powers?

Mr. BOUEY: The title of the act was the Consumer Credit (Temporary Provisions) Act, but if you read the preamble there is reference to emergency conditions. Perhaps you would want to get a legal view of this, but my own view was it was done in time of emergency.

Co-Chairman Senator CROLL: So the two references to the doubt of the dominion Government's authority has some basis?

Mr. BOUEY: This is not my field, Mr. Chairman, I am afraid. This is a constitutional matter.

Co-Chairman Mr. GREENE: Your view is, though, that any legislation in this regard was justified under the judicial interpretation of the powers of the federal Government in an emergency situation.

Mr. BOUEY: I think that may have been the case. Certainly that was the situation during the wars.

Co-Chairman Mr. GREENE: This was an interpretation of our Constitution by the Bank of Canada?

Co-Chairman Senator CROLL: I am a little troubled. I understand the first one which was during World War II. In the Korean situation did we actually declare war?

Mr. CLANCY: If we did not we lost a lot of good men.

Co-Chairman Senator CROLL: I do not think Canada declared war. In the first war we declared war and came under the War Measures Act. In the second war I have the idea we did not declare war.

Mr. CLANCY: We went in under the United Nations jurisdiction, but a dead man is the same no matter which way it was done.

Co-Chairman Mr. GREENE: There is no judicial interpretation by the Privy Council of the Government's view of peace, order and good government that says that only was is an emergency. I understand the definition of emergency is reasonably broad. The trouble is there has to be an emergency of some kind before the peace, order and good government clause comes into effect.

Co-Chairman Senator CROLL: You say the preamble of the Consumer Credit (Temporary Provisions) Act makes some reference to the Korean war and to some emergency situation?

Mr. BOUEY: Yes, I suggest that the preamble does that.

Co-Chairman Mr. GREENE: Will you continue, Mr. Bouey.

Mr. BOUEY: All that is left in this paper is a brief reference to the question of how responsive consumer credit is to monetary policy. Once again I have quoted from the Royal Commission on Banking and Finance and their view is that the financial institutions involved do respond but in somewhat different ways.

Co-Chairman Mr. GREENE: Are there any further questions in regard to the statement?

Mr. HALES: Mr. Chairman, this chart was referred to earlier, on page 19. I think we skipped over this rather quickly. I think there were a lot of significant things in it and particularly the ratio of consumer credit to the gross

national product in Canada and in the United States. Does our witness feel that this is a wide difference or is it pretty much on the same basis? Have you any observations, Mr. Bouey?

Mr. BOUEY: What the figures show is that the two countries are pretty close together on this but I have already expressed some doubts as to how comparable the two situations really are, and I would not want to make a great deal of these comparisons.

Mr. HALES: You do not feel we are extending consumer credit much more freely than they are doing in the United States?

Mr. BOUEY: No I would not want to say we were.

Mr. HALES: I think you expressed the view, Mr. Bouey, earlier in your answer to Senator Croll, that they showed an 8.5 per cent increase.

Mr. BOUEY: Yes, over the last ten years, if you work out the average annual rate of growth it comes to 8.5 per cent in the United States and 10 per cent in Canada, but we have been doing some things they have not. Our banks, for instance, have been getting into the field; their banks have been in it for a long time. The terms have been eased in Canada—they have also been eased in the United States, but there has been some catching up here. There were special factors working here that brought us closer.

Mr. HALES: But in the last ten years we have shown an increase of 10 per cent and they of 8.5 per cent.

Mr. BOUEY: That is right.

Mr. HALES: So it does not matter where it comes from.

Mr. BOUEY: Except that when institutions get into a field for the first time, as banks have done, you may find additional customers.

Co-Chairman Senator CROLL: Assuming that our population is 20 million and that the population of the United States is 200 million; what was our gross national product last year?

Mr. BOUEY: Last year it was \$44.3 billion.

Co-Chairman Senator CROLL: As against the American G.N.P.?

Mr. BOUEY: That was \$600 billion.

Co-Chairman Senator CROLL: Fourteen times ours?

Mr. BOUEY: It is just under fourteen as against 10 times the population.

Co-Chairman Senator CROLL: The population ratio is ten to one.

Mr. SCOTT: In going over the last part of your paper, is it a reasonable inference to draw that when the central bank exerts influence on the chartered banks for curtailment of credit that the finance companies seem to undergo a spurt of activity in the growth of their resources?

Mr. BOUEY: This has tended to happen but I think the view that the Royal Commission states here is that this is really due to the demand for consumer credit, but this is not to say that consumer credit is not affected by what happens to credit conditions.

Mr. SCOTT: It seems to me whatever controls, whatever influences the central bank can bring to bear seem to be restricted largely to the chartered banks and this spills over to the finance companies which take up the slack and increase their activity.

Mr. BOUEY: In a period when it is necessary to restrain the growth of credit of course what happens is that the credit not only becomes harder to get but more expensive. Interest rates tend to rise and the sales finance companies are faced with the same problems in connection with rising interest rates. Their money costs them more. They may, however, be able to pass it on to the consumer. They do not encounter a ceiling on their

interest rates like the chartered banks do. I would agree that the finance companies are affected by monetary policy, but how strong the effect is, is something else.

Mr. SCOTT: In other words the effect would be to control the supply of money but there is not control by the central bank over monetary policy in relation to the finance companies.

Mr. BOUEY: There is no direct control.

Co-Chairman Mr. GREENE: Does the lack of that control disturb the control over monetary policy of the Bank of Canada? Is it a factor which negates effective control over the money by the Bank of Canada?

Mr. BOUEY: There are limitations as to how far monetary policy can go, of course, and if the demand for credit is very strong there may be a problem, and I think that is why the Bank has said it would be unwise to rule out the use of selective controls under conditions of emergency.

Co-Chairman Mr. GREENE: To date it has created no problems?

Mr. BOUEY: I would not say that because we have had consumer credit controls twice and I did refer to some discussions between the Bank of Canada and the finance companies in 1956.

Co-Chairman Senator CROLL: During the time that they did not cooperate as was indicated in the report, was there no way of reaching them in the same way that you reach the banks for an area of co-operation, through governmental authority?

Mr. BOUEY: The central bank has no powers there.

Co-Chairman Senator CROLL: The central bank relies on persuasive power. Is there nothing else other than persuasive power that can be used on these finance companies in times of emergency?

Mr. BOUEY: There was no legislation for consumer credit controls at that time.

Co-Chairman Senator CROLL: They were on a voluntary basis, but the atmosphere was one of emergency.

Mr. BOUEY: Not an emergency in the sense of war.

Co-Chairman Senator CROLL: Well, not in the sense of war but emergency in the sense that it was serious enough for the Bank of Canada and the government to concern itself about it.

Mr. BOUEY: Yes.

Co-Chairman Senator CROLL: So you persuaded the banks to co-operate?

Mr. BOUEY: Well, monetary policy was also operating in the ordinary way at that time through the control of cash reserves of the chartered banks.

Co-Chairman Senator CROLL: So you do have some sort of control in peacetime?

Mr. BOUEY: Oh, yes. The central bank has this influence on the overall credit situation at all times.

Co-Chairman Senator CROLL: Yes, but you were not able to effect that control which did not come from the Bank of Canada. It was not effective?

Mr. BOUEY: I would say it was bound to have some effect but the question is whether it was strong enough.

Mr. BELL: May I interject, Mr. Chairman. Would it not have been possible to restrict their sources of borrowing through the chartered banks?

Mr. BOUEY: But they have other sources of funds, the sale of securities in the securities market, and others.

Mr. BELL: I agree with Senator Croll that it does seem possible that the Bank of Canada, having these various influences through the chartered banks, could certainly bring extreme pressure to bear on loan companies if it was felt desirable under certain financial conditions.

Mr. SCOTT: You told us you cannot do it?

Mr. BOUEY: The central bank has no power to direct the banks not to lend to particular groups. Certain things may be accomplished in a voluntary way. I would say finance companies, with the sources of credit they have, may still be able to operate reasonably well even if they have some difficulties in borrowing from banks.

Mr. BELL: The finance companies rely largely on the credit you refer to?

Mr. BOUEY: Perhaps I might note some statistics for the finance companies now.

Co-Chairman Mr. GREENE: Is this another report?

Mr. BOUEY: This is a report published by the Dominion Bureau of Statistics on titled Business Financial Statistics, Balance Sheets, Selected Financial Institutions, covering the fourth quarter of 1963, at page 10. At the end of 1963 these companies had long-term debt of \$864 million; demand and short-term notes payable in Canadian dollars, \$731 million; in foreign currency, \$113 million; owing from parent and associated companies, \$485 million, and in the last major item, bank loans, \$254 million. So, Mr. Chairman, you can see that bank loans, while they are of a fair size, are not a very big portion of the total.

Mr. HALES: There is no regulation whereby the Bank of Canada can prohibit these loan companies from borrowing money outside the country?

Mr. BOUEY: No.

Mr. HALES: So no matter what the Bank of Canada did they could go to other sources for funds?

Mr. BOUEY: The influence of the central bank is on the overall credit situation, but it has no way of directing its influence at any particular kind of credit.

Mr. MANDZIUK: Is not the Bank of Canada a central bank that lends to the chartered banks and can withhold credit from them and indirectly affect their position?

Mr. BOUEY: Advances to chartered banks by the Bank of Canada have never been important. The important thing is that the central bank has the power to control the cash reserves of the chartered banks and can therefore influence the growth of chartered bank assets, and this spreads out through the whole financial system. It does affect the overall situation but does not determine the effect on any particular form of borrowing or lending. That is left to the market.

Mr. MANDZIUK: Mr. Chairman, we are going back to what we discussed formerly. There are what we call captive finance or loan companies and they can get their financial resources from their parent companies or manufacturers in the United States. Some of them are not members of the federation that Mr. Chairman has mentioned. I think we should call them, or invite them, to appear because they are in direct competition with our Canadian finance companies and they have resort to an unlimited supply of funds. I have information that one of these so-called captive finance companies in 1963 controlled thirty per cent of our automobile financing in Canada.

Mr. SCOTT: Would it be fair to say that in the case of these finance companies, because of their outside sources of money, that they are largely insulated from control by the central bank?

Mr. BOUEY: No, I do not think that is quite right. They are affected the same way as other people are. They do find it is harder to borrow from the banks, that money is more expensive when there is a policy of credit restraint in effect. As the passage quoted from page 19 of the report of the Royal Commission on Banking and Finance indicates, they may sell their paper, go ahead and borrow and pay higher rates of interest, because consumers apparently are willing to press their demands for credit pretty hard and it is still profitable for finance companies to do this business even though money is more expensive than it would otherwise be.

Co-Chairman Senator CROLL: When did the Bank of Canada last vary the cash reserves of the banks?

Mr. BOUEY: There may be some confusion here, Senator Croll. When I say "control of the cash reserves of the banks" that happens every day. The cash reserve requirements for the chartered banks, as set out in the Bank Act, are for a minimum of 8 per cent of their deposits. The Bank of Canada Act gives the Bank power to vary that figure between 8 and 12 per cent, but that power has not been used.

Co-Chairman Senator CROLL: Not yet?

Mr. BOUEY: No, not at all. It came in in 1954.

Co-Chairman Mr. GREENE: Mr. Bouey, is there any indication that legislation permitting some control by the Bank of Canada over consumer credit agencies at a time of financial or monetary emergency would be beneficial?

Mr. BOUEY: I think, Mr. Chairman, the point here is whether there should be consumer credit controls or not, and the question of who should administer them, the Bank of Canada or someone else, is secondary. In the past it has not been the Bank of Canada which has administered consumer credit controls, it has been the Department of Finance. In the hearings of the Royal Commission on Banking and Commerce the Governor of the Bank of Canada was asked if he wished to have the Bank of Canada given the power to control consumer credit. He said he would not request the commission to recommend that. But that was a question of the location of the power to control consumer credit, not whether there should be control.

Mr. HALES: Was there any discussion in the report of the Royal Commission about the need for some steps to be taken to control that aspect of consumer credit outside the banks?

Mr. BOUEY: Mr. Chairman, I think the best I can do is to refer you to the excerpt from the report of the royal commission that I read.

Co-Chairman Senator CROLL: You leave us in this position. When it comes to monetary policy the Bank of Canada has some control, some influence on the chartered banks. We agree with that. But you leave us with the impression that outside of that the best the Bank of Canada can do is persuade, and without any effective powers at all. I think that is the substance of your presentation today. That is what I take away.

Mr. BOUEY: Mr. Chairman, I do not want to leave you with that impression. I did mention that the way the Bank of Canada carries out its monetary policy function is by effecting the rate of growth of cash reserves of the chartered banks. Changes in cash reserves influence the rate at which the banks are able to expand their assets. From there the reaction spreads out through the whole financial system, affecting the cost of money and credit as well. These changes in credit conditions affect consumers and investors right across the country. This is how the system works. The Bank of Canada does not have any way of controlling any particular kind of lending of the banks or anyone else, but the effect of its operation is, I think, pervasive through the financial system.

Mr. SCOTT: Is it fair to say that other than the influence over the chartered banks, other than that influence which spreads through the monetary system, you have no control except the restriction of cash reserves?

Mr. BOUEY: If bank loans are going up and the Bank of Canada seeks to restrict their growth then it will restrain the growth of the cash reserves of the banks. The banks may be able to keep on lending for some time by selling government securities, but the fact that the banks are selling securities will have by and large an effect on interest rates. It may be that interest rates will tend to rise and money will become more expensive. At some stage the banks and other financial institutions may feel they do not want to sell securities any longer because of the losses they would have to take because the reduction in their holdings of these assets has gone far enough. They will begin to do a certain amount of credit rationing as well.

Mr. SCOTT: Supposing in a period of what we call easy money, which the Government may embark upon, in that atmosphere of easy money there would be virtually no control over the finance companies?

Mr. BOUEY: In that case it works in the opposite direction because the Central Bank strives to permit the growth of credit. The tendency will be for easier money conditions. Interest rates will tend to go down and it will be easier to borrow from banks and other institutions. It will be easier for finance companies to raise money and so it affects them in that direction.

Mr. NASSERDEN: It would be fair to conclude then that when there are limitations put on the banks that actually that would be a period when the finance companies as we know them might enjoy prosperity or a spurt in their activities?

Mr. BOUEY: If the demand of consumers for that particular kind of credit is strong enough, that is to say, if they are willing to pay whatever is necessary to get the money, the finance companies will be able to raise the money at higher rates, and their assets will grow rapidly.

Mr. NASSERDEN: So any action in limitation of the banks would encourage that?

Mr. BOUEY: Well, it might. The point I would like to make is that even though the growth in the finance companies might be very rapid in those periods, it would be less rapid than it would have been if the monetary policy had not become tougher.

Mr. BELL: Assuming that there is some slight indirect control over finance companies in the ways that have been outlined here, would you say that finance companies have become more or less independent now in our society or do they remain substantially the same?

Mr. BOUEY: I would say that they have been successful in developing a variety of sources of finance, perhaps a wider variety than most institutions enjoy.

Mr. HALES: It would appear that if we felt consumer credit was getting out of bounds we could not look to the Bank of Canada to curtail it, it would have to be done through some act of Parliament. Is that the only way? If it gets out of control whose responsibility is it to control it? It must be done by act of Parliament?

Mr. BOUEY: That is right. If Parliament wished to control this particular kind of credit it would have to pass some kind of legislation.

Mr. NASSERDEN: Mr. Chairman, if I might make one observation: Would I be correct in assuming from the observations made today that the people in the consumer credit business are enjoying an interest return on their money

such that, regardless of what action is taken by the Bank of Canada, they are pretty well left in the position where they can take whatever business they want to.

Mr. BOUEY: I would not want to go that far. In any given situation their success will depend on the extent to which consumers want money. If they want to pay 15 per cent or 18 per cent or 20 per cent or more, then the finance companies will likely be able to raise the money.

Mr. NASSERDEN: What I was getting at is that there is not very much that the Bank of Canada can do about that situation. If borrowers are willing to pay those charges there is very little that the Bank of Canada can do.

Mr. BOUEY: That is true of any particular kind of credit. If it is a general situation then the Bank of Canada can consider whether monetary policy should be changed to affect that situation, but in the case of any particular form of credit, if the people who want it are prepared to pay high enough interest rates, then that form of credit will expand more rapidly than others. This is the way the market works.

Co-Chairman Mr. GREENE: If there are no further questions we will adjourn.

Thank you, Mr. Bouey.

The committee adjourned.

APPENDIX "A"

CONSUMER CREDIT

A statement prepared for the Joint Committee
of the Senate and House of Commons on
Consumer Credit.

by

G. K. Bouey
Chief, Research Department
Bank of Canada

June 16, 1964.

CONSUMER CREDIT

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CONSUMER CREDIT

As I understand it, Mr. Chairman, what you would like me to do today is to present a factual review of consumer credit—what it is, how it is measured, how much there is of it and how it has developed over the years. What I have attempted to do is simply to pull together in very brief form some of the readily available information that I think you might find useful to have at this stage of your enquiry. I have drawn heavily on the Report of the Royal Commission on Banking and Finance, submissions of financial institutions to the Royal Commission, statistical material collected and published by the Dominion Bureau of Statistics¹, and some other sources. Nothing that I have to say is really new.

1. Definition of Consumer Credit

In principle, consumer credit might be defined as credit advanced to individuals to finance their expenditures on goods and services as consumers. It should therefore exclude credit extended to businesses, for example credit used to finance the building-up of inventories or expenditure on buildings and equipment. Expenditure by individuals on housing is also generally regarded

¹The Dominion Bureau of Statistics publishes a monthly bulletin, *Credit Statistics*, and includes a table on consumer credit in its monthly publication *Canadian Statistical Review*.

as a form of capital investment rather than consumption expenditure, so that borrowing to finance houses is excluded. Finally, credit used to acquire financial assets such as bonds and stocks would not qualify as consumer credit under this definition.

2. Problems of Measuring Consumer Credit

It is much easier to make these distinctions in defining consumer credit than it is to maintain them when attempting to measure the various kinds of such credit. Perhaps I might say a little about the sort of problems that arise. First, the actual type of credit used is not always an unequivocal indication of the kind of expenditure that is in fact being financed. For example, one person might purchase a house, partly with the help of a mortgage, and then buy a refrigerator and stove on credit from a retail store, while another in the same financial position might get a larger mortgage on the house so that he would not need to buy the other things on credit (indeed some houses are sold with many electrical appliances "built-in"). In this example, taking the form of borrowing as the sole indicator of its purpose, the first individual would be regarded as having used consumer credit but not the second, even though both bought the same things with the same total amount of credit. I do not see that one can really get around this difficulty; in practice it appears to be necessary to exclude all mortgage borrowing. This means that some mortgage financing, often in the form of relatively short-term second mortgages, that may be used to finance expenditure on consumer goods is excluded.

The problem of distinguishing consumer credit from business credit is difficult in many cases and arbitrary decisions often have to be made. A common example is the fact that credit used to finance the purchase of passenger cars is normally taken to be consumer credit though in many instances the cars will in fact be used for business purposes. Even loans made by consumer loan companies may be used by the borrowers in their own businesses rather than for personal use. In describing the various kinds of credit that might be included under the heading of consumer credit I shall state the assumptions that have been made, in the absence of clear-cut indications, regarding the classification of credit as business or consumer.

I have already mentioned that consumer credit should exclude credit used to finance the acquisition of financial assets, such as bonds and stocks, because these are not consumer goods. What does one say, however, about those cases where people borrow against their bonds and stocks in order to finance the purchase of consumer goods, for example an automobile? The usual practice is to exclude such loans from consumer credit partly because of the impossibility of distinguishing loans contracted specifically to finance holdings of securities from those which, although secured in the same way, have been contracted for other purposes. It is also the case that since the securities are marketable the individual concerned clearly has the alternative of selling them and paying cash for his purchase. Loans against the cash surrender value of life insurance are in a somewhat similar category but it seems to me that they more closely fit the consumer credit definition. They are not likely to be used to any great extent to finance the acquisition of new life insurance policies or other financial assets. Moreover life insurance policies are not marketable in the same way as bonds and stocks and therefore the alternative of disposing of them in order to buy consumer goods is not one that is often contemplated. I notice that the Royal Commission on Banking and Finance has included policy loans as a type of consumer credit but not bank loans fully secured by marketable bonds and stocks.¹

¹Report of the Royal Commission on Banking and Finance, table on page 204.

Certain forms of credit are not included in consumer credit statistics simply because the information is not available. Data on the amount of credit outstanding under certain credit card arrangements are not available. Again, there are no statistics for service credit such as that extended by doctors and lawyers, pawnbrokers, and credit extended through personal channels, that is, by relatives and friends.

One result of the difficulty involved in determining exactly what amounts of credit should be classified as consumer credit is that the Bank of Canada publishes no over-all total labelled "Total Consumer Credit". However, despite the problems that I have outlined I think the coverage of the information which is published by the Bank and by the Dominion Bureau of Statistics is adequate to provide a good indication of the trend of consumer credit. I propose now to review this information in some detail.

3. *Types of Consumer Credit and Related Forms of Credit*

The Bank of Canada publishes in its monthly Statistical Summary two tables on credit extended to consumers or individuals. The first table shows the balances outstanding for finance company and retail credit extended to consumers. As at December 31, 1963, the amounts outstanding were as follows:

Finance Company and Retail Dealer Credit Extended to Consumers Balances Outstanding (millions of dollars)			
1. Instalment Finance Companies			873
2. Small Loan Companies			
Instalment credit	55		
Cash loans	753		808
			<hr/>
3. Department Stores			456
4. Other Retail Dealers *			
Instalment credit	272		
Charge accounts	359		631
			<hr/>
Total			2,768
			<hr/> <hr/>

* In addition to the amount shown here, balances outstanding on oil companies' credit cards amounted to \$54 million.

A brief explanation of each of the items in the table follows.

(1) Instalment Finance Companies

A description of the business of instalment finance companies, also known as sales finance companies, is included in the Report of the Royal Commission on Banking and Finance from which the following quotation is taken:

"Sales finance companies differ from other financial institutions, including the small loan companies, in that they frequently do not lend directly to the purchasers of the goods being financed. Instead of applying to an institution for credit and receiving the funds in cash to make purchases or pay off bills, the borrower using finance credit rarely deals with the lending companies or actually receives cash. The credit is made available by the auto dealer or other retailer at the time of sale in a single transaction with the customer, who signs a conditional sales contract or some other form of deferred payment agreement with the dealer. The dealer then sells the contract to a finance company, which will collect the payments on it, thus completing the transactions by which the company effectively extends credit to his customer. From

the customer's point of view the result is the same as in other credit dealings—he has made his purchase and will pay for it over the following months—but the mechanics of doing business are entirely different.”

Instalment finance companies operate under ordinary company legislation. In a number of provinces there is legislation in regard to conditional sales agreements, but I have not attempted to review it here.

The figure shown in the foregoing table for instalment finance companies is the total amount outstanding under conditional sales agreements held in connection with the financing of retail purchases of consumer goods. In dividing the amount of instalment credit extended by finance companies between the financing of consumer goods on the one hand and the financing of commercial and industrial goods on the other, certain arbitrary decisions must be taken. For example, all passenger cars are treated as consumer purchases. Of the total balances outstanding on consumer goods of \$873 million at the end of 1963 \$687 million, or 79 per cent, represented automobile financing.

Monthly information on the gross amounts of credit extended by instalment finance companies for the financing of passenger cars and other consumer goods, as well as data for estimated repayments of principal, is available. In 1963 the total amount of credit extended for the purchase of consumer goods was \$916 million, of which automobiles accounted for \$722 million, and total repayments amounted to \$844 million. Total balances outstanding rose by \$72 million, the margin of extensions over repayments. This type of information is useful because the trend of credit extended may differ from that of the balances outstanding. Similar information is not available for other lenders on a current basis.

(2) Consumer Loan Companies

Consumer loan companies include federally incorporated companies operating under the Small Loans Act and their affiliated companies engaged in making personal loans, and money lenders incorporated provincially and licensed under the Act. The Act sets limits on the rates of interest charged on loans of \$1,500 or less. All loans are assumed to be made to consumers although it is likely that a small amount is used for business purposes. The figures shown in the table include the cash loans of all companies but exclude the conditional sales agreements of those companies which do more than 50 per cent of their total business in that form; the data for these few companies are included with the instalment finance companies. Most of the credit made available by consumer loan companies takes the form of cash loans repayable in instalments.

In its submission to the Royal Commission the Canadian Consumer Loan Association presented an analysis of loans made during 1960 by major consumer loan companies accounting for 65 per cent of loans outstanding under the Small Loans Act.² This analysis indicated that 11 per cent of the borrowings were made to finance automobiles, 11 per cent for travel expenditures, 32 per cent for the consolidation of debts and the remainder, 46 per cent, for a wide variety of goods and services ranging from the purchase of furniture and clothing to medical expenses, household repairs and so on. The usefulness of a classification of loans by purpose is limited to some extent by the fact that many borrowers probably have a good deal of choice as to which of their various kinds of expenditure they elect to say is being financed by credit.

(3) Department Stores

At one time it was possible to divide credit extended by department stores into the amounts outstanding on charge accounts and instalment credit. The

¹Report of the Royal Commission on Banking and Finance, page 205.

²Submission by Canadian Consumer Loan Association, page 17.

growing practices of many department stores of offering all-purpose credit plans no longer permit such a distinction to be made. Customers' accounts may be paid off at the end of the month or, at the option of the customer, the account may take the form of a revolving credit against which regular payments are made.

(4) Other Retail Dealers

In the case of the statistics on other retail dealers it is still possible to distinguish between charge account credit and instalment credit which takes the form of conditional sales agreements or other deferred payment plans. Of course it is not always clear that a store should be classified as retail rather than wholesale. The Dominion Bureau of Statistics adopts the convention of treating any dealer as a retail dealer if more than 50 per cent of his sales are at the retail level. This means that some dealers who may extend consumer credit are excluded. Retail outlets of other types which are believed to be very largely commercial, such as farm implement and lumber dealers, are excluded. In the statistics published by the Bank of Canada charge accounts of motor vehicle dealers are not included because it is believed that most of these accounts represent credit extended to business rather than consumers. The amounts outstanding on oil companies' credit cards might well be included in the table, rather than in the present footnote, since business credit that can be identified has already been excluded.

* * *

The second table published regularly by the Bank of Canada provided the following information as at December 31, 1963:

Selected Loans Extended Mainly to Individuals for Non-Business Purposes by Certain Financial Institutions: Balances Outstanding (millions of dollars)

1. Chartered Banks' Personal Loans		
Fully secured by marketable bonds & stocks ..	392	
Home improvement loans	72	
Other		
Secured by household property	370	
(of which secured by motor vehicles)	(319)	
Other	1,062	
(of which repayable by instalments)	(465)	1,432
2. Quebec Savings Banks' Loans Not Secured by		
Mortgages		23
3. Credit Unions' Loans Not Secured by Mortgages ..		575*
4. Life Insurance Companies' Policy Loans		385

(1) Chartered banks' personal loans

In principle this category of chartered bank loans excludes all loans made for business purposes. It must be recognized, however, that some personal loans may be used in business and, conversely, some loans to owners of small businesses may often indirectly make it possible for the owner to finance consumer goods, for example an automobile. Loans fully secured by marketable bonds and stocks include both loans to finance new acquisitions of bonds and stocks and loans against bonds and stocks which the borrower may have owned for some time.

Home improvement loans are made by the chartered banks under Part IV of the National Housing Act, 1954. They are usually made for a term of several

*figure for December 31, 1962

years and are not regarded as consumer credit since they finance what is generally considered to be a form of capital expenditure; but clearly they also add to the available funds of consumers and can therefore have an indirect effect on the purchase of consumer goods.

The remaining personal loans of the chartered banks are sometimes referred to as "unsecured" personal loans. This is, however, only a short-hand phrase used to describe loans other than those fully secured by marketable bonds and stocks. They include loans partially secured by marketable bonds and stocks, loans against the cash surrender value of life insurance policies, loans on the security of household property, including automobiles, as well as loans which are made only on the names of borrowers. At December 31, 1963 the total amount of "unsecured" personal loans was \$1,432 million. Of this total, \$370 million was secured by household property, mainly automobiles, as permitted by Section 75(6) of the Bank Act. This figure cannot, however, be regarded as a measure of the total amount of bank loans made to finance purchases of household property since many such loans may be made without taking security specifically on the goods being purchased. Another piece of information on "unsecured" personal loans indicates that of the total of \$1,062 million not secured by household property, \$465 million was repayable by equal instalments of principal and interest, i.e., under a personal loan plan. There are other loans where regular payments are made on principal but the interest charge varies each month according to the remaining amount of principal outstanding.

It is assumed that "unsecured" personal loans are made mainly for non-business purposes although it is known that this category contains some large loans that could not possibly be regarded as consumer credit. Some "unsecured" personal loans are used to help finance the purchase of a house.

(2) *Quebec savings bank's loans not secured by mortgages*

The two banks which operate under the federal Quebec Savings Bank Act extend mortgage and other loans to their customers. It is assumed that the non-mortgage loans are mainly to individuals for non-business purposes. A large part of the amount outstanding represents loans fully secured by marketable securities.

(3) *Loans of credit union and caisses populaires, other than those secured by mortgages*

Although some of the loans made by credit unions and caisses populaires may in fact be used for business purposes, particularly farming, it is believed that they are mainly non-business loans.

(4) *Life Insurance Policy Loans*

These are loans made against the cash surrender value of life insurance policies. It is assumed that they are made mainly for non-business purposes.

This completes the list of the types of credit extended to individuals mainly for consumer or non-business purposes for which information is available.

4. *Total Consumer Credit.*

Your committee will no doubt decide on which among the various kinds of credit it wishes to look at further. But, so long as one is aware of the difficulties associated with the statistics, I believe that it is useful, and certainly it is convenient, to add up the various types of credit that might be regarded as consumer credit to obtain a total called "consumer credit" and I propose today to make my own selection for that purpose. I am going to take the total amount of finance company and retail dealer credit extended to consumers

(table on page 4) and add to that chartered bank "unsecured" personal loans (i.e., personal loans other than those fully secured by marketable bonds and stocks and home improvement loans), loans of credit unions and caisses populaires (excluding mortgage loans), unsecured loans of the Quebec savings banks, and life insurance companies' policy loans. In addition, I am going to combine the amounts outstanding under oil companies' credit cards with retail dealers' charge accounts. This selection is very close to that used by the Royal Commission on Banking and Finance. The difference is not at all important in terms of the trend of the total figures. The total for consumer credit defined in this way and the components are shown in the table on page 10 by year-ends back to 1938 although the figures for years prior to 1948 are not on a strictly comparable basis. The chart on page 11 shows these series from 1948 to 1963, plotted quarterly and adjusted for seasonality.

5. *Growth of Consumer Credit*

No doubt there has always been consumer credit in one form or another. However, the appearance of consumer instalment credit on a significant scale seems to have been associated with the development of relatively high-value, long-lived durable goods, particularly automobiles. A second factor has been the development of institutional arrangements for the extension of consumer credit. Plans providing for instalment payments, like amortized mortgages on houses, were a major innovation for they probably have the effect of making consumer loans more attractive to both lenders and borrowers by reducing the risk to the former and tailoring repayment terms to the capacity to repay of the latter. As the submission of the Federated Council of Sales Finance Companies to the Royal Commission on Banking and Finance indicates, the rise of sales finance companies paralleled the development of the modern mass market for consumer durable goods, particularly the mass production of automobiles in Canada following World War I. Another factor responsible for the growth of consumer credit has been the change in the attitudes of our society toward the incurring of large amounts of debt for consumption purposes. And underlying the whole development has been the expansion of consumer incomes which provide the means for supporting substantial amounts of short-term debt.

CONSUMER CREDIT OUTSTANDING⁽¹⁾
(millions of dollars)

Year-ends	Retail Dealers			Consumer Loan Companies				Chartered Banks	Credit Unions & Caisses Populaires	Quebec Savings Banks	Life Insurance Companies	Total
	Department Stores	Other Retail Dealers		Instalment Finance Companies	Instalment Credit	Cash Loans	Total					
		Charge Account Credit ⁽¹⁾	Instalment Credit									
1938	*	*	*	46	—	—	75	228	607			
1939	*	*	*	38	—	—	85	219	592			
1940	*	*	*	46	—	—	90	210	616			
1941	*	*	*	49	—	—	92	200	581			
1942	*	*	*	17	—	—	86	189	462			
1943	*	*	*	7	—	—	87	173	403			
1944	*	*	*	6	—	—	100	159	406			
1945	*	*	*	8	—	—	128	152	449			
1946	*	*	*	24	—	—	186	150	561			
1947	*	*	*	48	—	—	240	152	780			
1948	*	*	*	71	—	64	154	54	836 ⁽¹⁾			
1949	*	*	*	116	—	77	173	63	985			
1950	*	*	*	202	—	93	224	72	1,223			
1951	78	232	96	186	—	114	204	76	1,185			
1952	141	248	163	373	—	148	242	94	1,624			
1953	167	274	183	516	3	173	308	129	1,981			
1954	186	293	206	492	6	209	351	151	2,136			
1955	227	314	230	589	6	273	441	174	2,516			
1956	244	332	248	756	13	343	435	226	2,870			
1957	262	325	271	780	15	362	421	258	2,978			
1958	282	348	266	768	19	382	401	320	3,249			
1959	314	367	274	806	38	446	484	397	3,690			
1960	368	388	267	828	45	504	549	433	4,020			
1961	401	382	270	756	35	559	594	516	4,316			
1962	427	392	269	801	52	662	714	575	4,746			
1963	456	413	272	873	55	753	808	640 ⁽²⁾	5,292			

⁽¹⁾ Figures for years prior to 1948 are not strictly comparable due mainly to a reclassification of retail dealers to exclude credit extended to farmers or other business. This reclassification resulted in a reduction of about 20 per cent to the figure of retail dealer credit previously reported for 1948.

⁽²⁾ Includes oil companies' credit cards.

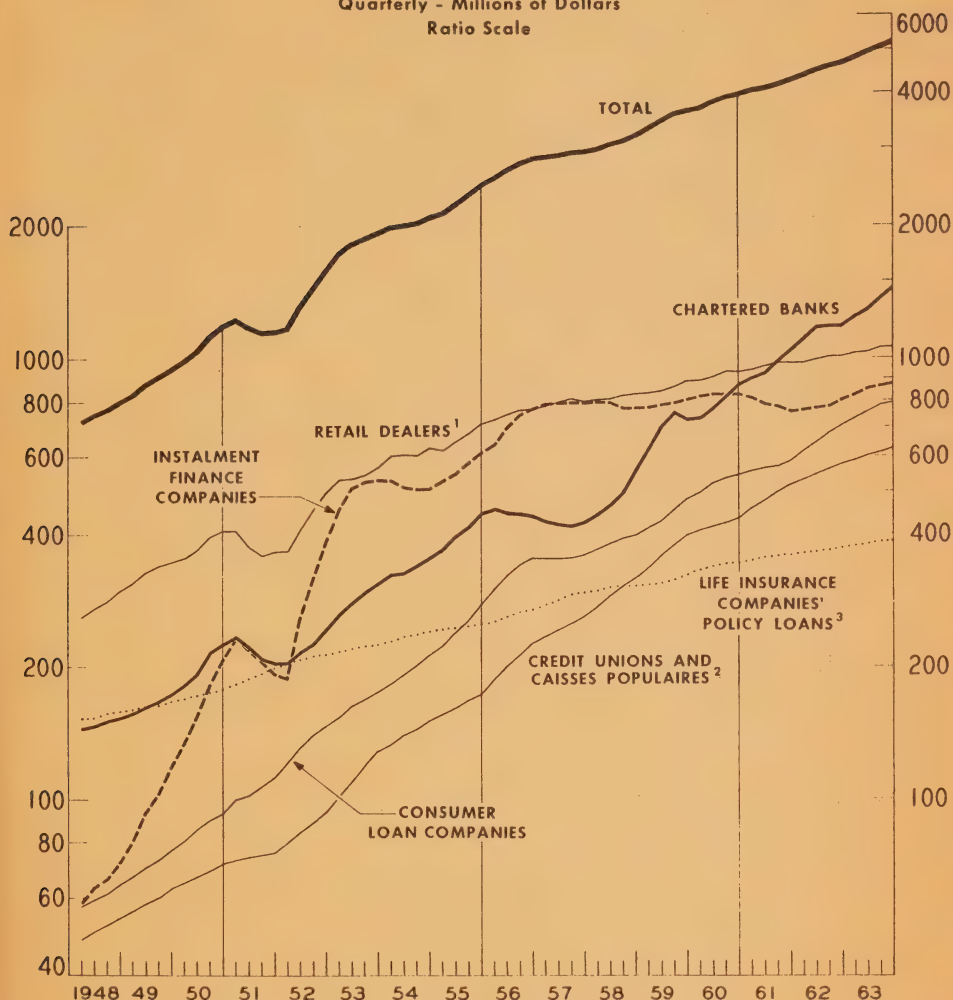
⁽³⁾ Loans of credit unions and caisses populaires for 1963 have been estimated by assuming the same percentage increase as in the previous year.

* Breakdown not available.

—Consumer Credit Balances Outstanding—CHART—with Mr. Brennan

CONSUMER CREDIT BALANCES OUTSTANDING

Seasonally Adjusted
Quarterly - Millions of Dollars
Ratio Scale



¹ Commencing December 1955, includes unadjusted figures for oil company credit cards.

² Credit unions and caisses populaires are only available on an annual basis to 1962; the figure for 1963 has been estimated by assuming the same percentage increase as in the previous year. Quarterly data have been obtained by pro-rating the annual figures.

³ Life insurance companies' policy loans appear to have little seasonal variation and have not been seasonally adjusted.

The total amount of consumer credit outstanding just before the second World War had of course been influenced by the depressed economic conditions in the 1930's. A considerable proportion of the total was credit granted by retail dealers. While banks had no doubt always made some personal loans for non-business purposes, only one bank at that time operated a personal loan department which made personal loans repayable in instalments rather than in the more customary single payment.

During the war years the total amount of consumer credit outstanding declined. Under the War Measures Act, the Wartime Prices and Trade Board was given jurisdiction over consumer credit and instalment buying. "The primary object in the regulation . . . was to reduce the pressure on the price level through a curtailment in the volume of floating credit. It also had the effect of conserving labour and critical materials through reduced consumer demand; reducing the costs of doing business arising from bad debts, interest and bookkeeping expenses; reducing the volume of outstanding debt of individuals; and accumulating a backlog of demand for industrial products for a later period when labour and materials will again be readily available for civilian needs."¹ This control was aimed primarily at instalment credit but to avoid evasion it had to embrace charge accounts and other forms of consumer debt. Its essence so far as instalment credit was concerned was a minimum cash down-payment (eventually set at one-third) and a maximum period for repayment (eventually set at various periods from 6 to 15 months depending on the type of article and the amount financed).

The objective of these controls was obviously attained. There was a substantial reduction in consumer credit outstanding. Looking at the major components of the total, a striking decline may be seen in the receivables of the sales finance companies. This reflected the virtual disappearance from the market of new passenger automobiles for civilian use.

In 1946 some easing of consumer credit controls occurred and they were revoked in the early part of 1947. The supply of automobiles and other durable goods improved and total consumer expenditures on such goods rose rapidly. From the end of 1946 to the end of 1950 total consumer credit outstanding rose sharply. While some easing of down-payment requirements and repayment terms occurred the reasons for the increase seemed to lie more in the demand for and supply of those durable goods normally bought with some degree of assistance from instalment credit. Clearly Canadian consumers were trying to catch up with the shortages of durable goods caused by war and depression.

In view of the threat of inflation during the Korean War, the Government implemented consumer credit controls in late 1950, under the Consumer Credit (Temporary Provisions) Act, and tightened them further in early 1951, when they were made more stringent than during World War II. A 50% down-payment requirement with a 12-month maximum repayment period was imposed on automobile financing compared with the wartime 33½% down-payment. Certain other policies tended to operate in the same direction. The chartered banks undertook, after consultation with the Bank of Canada, to scrutinize vigorously applications for all types of credit with a view to curtailing advances for less essential purposes and agreed not to increase further their loans to sales finance companies. In addition, the Government raised sales taxes on consumer durables. The sharp post-war rise in consumer credit was halted and between the end of 1950 and the end of 1951 the total dropped from \$1,223 million to \$1,185 million.

The decline in consumer credit in this period was accompanied by a substantial reduction in automobile sales. Another development was the

¹Report of the Wartime Prices and Trade Board—Sept. 3, 1939 to March 31, 1943, page 5.

use of alternative sources of funds by sales finance companies owing to the restriction on their loans from the chartered banks. A number of these companies increased their capital stock and also turned to an expansion of short-term notes placed with various investors.

In January 1952 the restrictions on automobile financing were eased and in May 1952 all consumer credit controls were suspended. The Consumer Credit (Temporary Provisions) Act was extended to July 31, 1953 but no further action was taken under this legislation. Since May 1952, therefore, consumer credit has not been subject to direct controls in Canada. It is of interest to note that federal measures to control consumer credit in this country have been limited to war and post-war periods and have been introduced only in periods of emergency.

After the removal of controls consumer credit rose rapidly. In 1952 and 1953 the total outstanding increased by \$796 million or by 67 per cent. It has continued to grow since that time; the average annual rate of growth over the last 10 years has been 10 per cent. The rate of growth slowed only in periods of recession—1954, 1957/58 and 1960/61—and very briefly in the period immediately following the 1962 exchange crisis.

A number of interesting developments have occurred in the consumer credit field since the end of consumer credit controls in 1952. Down-payment requirements and repayment terms not only returned to the pre-control standards of 1950 but eased considerably further. This followed a similar trend which was occurring in the United States. By 1958 the average term of repayment on new motor vehicles financed by sales finance companies was 24 months and in 1963 it was 29 months.

In 1956, when the Canadian economy was showing evidence of considerable inflationary pressure, the volume of consumer credit, particularly in the form of instalment finance, was expanding rapidly and the Bank of Canada attempted to influence this situation. These efforts were described in the annual report of the Governor in the following terms:

"The Bank held discussions with representatives of the major instalment finance companies with a view to seeing whether some voluntary agreement could be reached among the leaders of the industry to prevent any further significant increase in the total volume of credit of this character. It turned out that agreement of all concerned could not be reached. It is understood that some of the companies have individually tightened up their lending terms. There had been a marked easing of such terms, particularly in the field of automobile financing where the average down-payment, expressed as a percentage of the purchase price, had progressively declined in 1954, 1955 and 1956, and the average length of term permitted for payment of the unpaid balance of the purchase price had progressively increased. The Bank also had an informal discussion with representatives of the major department stores and chain stores engaged in selling consumers' durable goods on credit, many of which do their own financing but also depend on occasion upon funds provided by the instalment finance companies. These representatives expressed the view that in their business credit terms had not been relaxed, and no agreement was reached with respect to restraining further increase in the volume of consumer credit extended through these outlets. Prior to the meeting the major department stores had already agreed among themselves to discontinue the practice of selling goods without any down-payment. This was clearly a constructive step in the circumstances.

The banks have not increased in 1956 their lines of credit to finance companies and retail stores providing instalment finance facilities.

By the latter part of the year the smaller finance companies and smaller stores, which for the most part have no outside source of funds except bank credit, had increased their actual bank borrowings almost to the authorized limits and so had reached the limit of their ability to increase their lending activities. The larger finance companies and retail stores, which can raise funds in the market by sale of short-term notes and debentures, are not affected to the same degree by the limited availability of bank credit. In some cases these companies are subsidiaries of large foreign corporations and have access to funds through them. The purpose of our informal discussions with these groups was to see whether they would voluntarily remove what might be regarded as discrimination in favour of large enterprises and to the detriment of small enterprises by coming to some agreement among themselves. Late in the year, as already mentioned, the banks took steps to halt the rise in their loans outstanding to the larger finance companies."¹

Again in 1959-60 when the chartered banks found it necessary to limit the growth in their total loans they tightened their lending to finance companies on their own initiative. One response of the finance companies was to make increasing use of alternative sources of funds. By the end of 1963 loans of chartered banks to instalment finance and small loans companies amounted to \$302 million, no higher than at the end of 1955. Their short-term notes outstanding, however, have risen greatly and at the end of 1963 amounted to \$844 million. There have also been substantial increases in their long-term capital.

Another major development in the consumer credit field in the last decade has been the great expansion of the personal lending activities of the chartered banks. It has already been noted that in the 1930's only one bank had developed a personal loan department. The "unsecured" personal loans of the banks rose during the post-war period from a little over \$150 million in 1948 to \$224 million at the end of 1950, \$441 million at the end of 1955 and then declined moderately to the end of 1957. In 1958 banks began to develop their personal lending vigorously with a number of them establishing personal loan plans for the first time. "Unsecured" personal loans more than tripled from the end of 1957 to the end of 1963, rising from \$421 million to \$1,432 million. This development was accompanied by a levelling-off in the trend of instalment finance company credit to consumers although it has been rising again in the last two years. Consumer finance companies have continued to grow but at a somewhat slower rate since 1956.

In summary, the growth of consumer credit in the post-war period has been greatly influenced by the trend toward easier terms, the change in the role of the chartered banks in consumer lending, and the development of new sources of funds by finance companies. It has been associated with a substantial expansion in the market for automobiles and other consumer durables (including television sets beginning in the early 1950's) and the expansion of consumer incomes which must support the increase in debt.

6. *Consumer Credit and Personal Disposable Income*

The available statistics permit interested people to make some judgment as to whether consumer credit is providing more or less support to total spending in the economy in any particular period than it normally does. Some analysts like to go further and make comparisons with personal disposable income, i.e. personal income less income taxes. Certainly there are few statistical guides available and calculations of the ratio of consumer credit to personal disposable

¹Annual Report of the Governor of the Bank of Canada, 1956, pages 34 and 35.

income may be of some assistance in forming judgments about the consumer credit situation. However, for a number of reasons such a calculation cannot be relied on by itself to give more than a very rough indication of the probable capacity and willingness of consumers to incur further increases in debt. If per capita income is rising the amount of income available to support increased debt may be rising proportionally more than personal disposable income. If repayment terms are lengthening the debt burden expressed as a monthly charge against income may not be rising nearly as rapidly as total consumer credit. One must also bear in mind that the consumer credit figures show only a part of the total financial position of consumers. On the liability side mortgage debt is in fact much larger than consumer credit. The Royal Commission on Banking and Finance estimates that the ratio of consumer credit and mortgage credit combined to personal disposable income was 50 per cent in 1962.¹ Taking assets into account as well, consumers as a group may in fact be improving their net financial position by accumulating liquid assets at the same time that consumer credit is rising fairly sharply. A great deal of statistical information would be necessary if one were going to make a continuous appraisal of the position of consumers. Even if data on consumer assets and liabilities were readily available by income group, the problem would still be a difficult one since any such grouping must include many who are in very strong financial positions as well as those who may be somewhat over-extended. A survey of personal finance conducted by the Royal Commission on Banking and Finance provides some data by income and by age group. After noting that there was evidently some understatement of the reported level of instalment debt, the report goes on to say:

"... the survey does not indicate that consumers generally are in an over-extended financial position. Indeed, a large part of the repayment commitments incurred with such debt merely displaces previously unrecorded, but nevertheless real, commitments for monthly rent, laundry, or other services. This is not to argue that there are not some households in an over-extended position, either owing to poor financial planning or over-purchasing, but merely to state that the overall position of households does not suggest weak management or a vulnerable financial position."²

In the table which follows I have set out figures on the ratio of consumer credit to personal disposable income in both Canada and the United States. The consumer credit figures are not strictly comparable even though adjustments have been made to both the United States and Canadian statistics to take account of known differences. Moreover, the problems of comparability are not entirely statistical because lending and borrowing practices differ in the two countries. For example, there are some indications that mortgage credit is used to a greater extent in the United States than in Canada in financing household durables.

For what they are worth the data indicate that the ratio of consumer credit (as adjusted) to personal disposable income in Canada at the end of 1963 was 16 per cent, the same as in the United States. It has risen somewhat more rapidly in this country over the last 15 years. The statistical evidence does not enable us to examine the relationship of repayments to personal disposable income in Canada. Such figures are available for the United States, however, and these show that repayments of instalment credit (i.e. excluding charge account credit and single payment loans) remained close to 13 per cent of personal disposable income from 1956 to 1962 and have since risen slightly to 14 per cent, even though the ratio of total consumer credit to personal disposable income has risen much more rapidly.

¹Report of the Royal Commission on Banking and Finance, page 205.

²Report, page 21.

CONSUMER CREDIT OUTSTANDING
RATIO TO PERSONAL DISPOSABLE INCOME AND GROSS NATIONAL PRODUCT
CANADA AND UNITED STATES

Year end	Canada				U.S.A.				
	Consumer Credit Outstanding ⁽¹⁾	Personal Disposable Income ⁽²⁾	Ratio of Consumer Credit to Personal Disposable Income		Consumer Credit Outstanding ⁽¹⁾	Ratio of Consumer Credit to Personal Disposable Income			
			millions of dollars	%		billions of dollars	%		
								GNP ⁽²⁾	Ratio of Consumer Credit to GNP
1948.....	678	11,436	15,808	5.9	4.3	13.2	194.0	6.8	5.0
1949.....	818	12,092	16,732	6.8	4.9	16.0	189.3	8.5	6.2
1950.....	1,045	13,220	19,216	7.9	5.4	19.9	217.7	9.1	6.5
1951.....	986	14,984	21,624	6.6	4.6	20.9	233.8	8.9	6.2
1952.....	1,411	16,628	24,610	8.5	5.7	25.7	245.6	10.5	7.2
1953.....	1,756	16,916	25,236	10.4	7.0	29.5	253.8	11.6	8.2
1954.....	1,896	17,300	25,368	11.0	7.5	30.5	260.9	11.7	8.2
1955.....	2,266	18,624	27,972	12.2	8.1	36.7	283.0	13.0	9.0
1956.....	2,600	20,976	31,788	12.4	8.2	40.0	300.3	13.3	9.3
1957.....	2,683	21,716	31,792	12.4	8.4	42.4	311.2	13.6	9.6
1958.....	2,944	23,324	33,528	12.6	8.8	42.3	325.0	13.0	9.2
1959.....	3,367	24,272	35,632	13.9	9.4	48.5	341.9	14.2	9.9
1960.....	3,676	25,504	36,524	14.4	10.1	52.7	353.4	14.9	10.5
1961.....	3,958	26,812	38,616	14.8	10.2	54.0	373.1	14.5	10.0
1962.....	4,374	28,624	41,336	15.3	10.6	59.2	391.4	15.1	10.5
1963.....	4,907	30,600	44,332	16.0	11.1	65.6	410.9	16.0	10.9

⁽¹⁾ Seasonally adjusted figures for total consumer credit outstanding have not been used since U.S. data are not available. To make the series for the two countries as comparable as possible, life insurance companies' policy loans have been excluded from the Canadian series as these are not included in the U.S. figures and service credit has been excluded from the U.S. data since this information is not available in Canada.

⁽²⁾ Fourth quarter data seasonally adjusted at annual rates.

7. Consumer Credit Charges

Under this heading I am listing for the convenience of the Committee the readily available information on interest rates charged by lenders and I have recorded statements of the Royal Commission on Banking and Finance regarding the disclosure of charges.

(a) Interest rates charged by lenders of consumer credit

(1) Chartered banks

On the subject of the charges of chartered banks the Report of the Royal Commission on Banking and Finance makes the following statement:

"Beginning in 1958 the banks began to develop their personal instalment lending very vigorously. While only one bank had previously been active in this business, all but one now offer instalment loans, normally repayable in three years or less, and most of them carrying a gross interest and service charge varying from 9¼% to 11¼%. The rate structures differ among banks, but in most cases the rates are higher for longer-term loans. On the other hand, only one bank varies its rates with the size of the loan, charging higher rates for small amounts. The banks have taken the view that the charges under these plans do not involve a breach of Section 91 of the Bank Act and this interpretation has not been challenged by the authorities."¹

(Section 91 of the Bank Act sets a ceiling of 6 per cent on rates of interest or discount on loans.)

While the rates mentioned by the Royal Commission apply to instalment loans made under personal loan plans they do not apply to all of the "unsecured" loans of the chartered banks.

(2) Consumer loans companies

The Small Loans Act sets a limit on the lending charges of companies incorporated under the Act and money-lenders licensed under the Act on loans up to \$1,500. All money-lenders must be licensed except for those whose charges do not in any case exceed an effective rate of 1 per cent per month on the unpaid balance. The Small Loans Act was passed in 1939 and revised in 1956. It now permits lenders operating under the Act to make total charges not exceeding 2% per month on the unpaid principal balance up to \$300, 1% per month on the unpaid principal balance between \$300 and \$1,000, and ½% per month on the unpaid principal balance from \$1,000 to \$1,500.² The submission of the Canadian Consumer Loan Association³ to the Royal Commission indicates that the effective rates work out as follows:

<i>Amount of Loan</i>	<i>Rate per annum</i>
\$300	24.00%
\$500	21.72%
\$1,000	17.76%
\$1,500	15.24%

The Report of the Royal Commission on Banking and Finance states that:

"As a general rule, all loans under \$1,500 are made at the maximum permitted rates . . ."⁴

¹Report of the Royal Commission on Banking and Finance, page 127.

²In the case of longer-term loans these limits are modified by the Act. "Where a loan of five hundred dollars or less is made for a period greater than twenty months or where a loan exceeding five hundred dollars is made for a period greater than thirty months, the cost of the loan shall not exceed one per cent per month."

³Submission of Canadian Consumer Loan Association, page 8.

⁴Report of the Royal Commission on Banking and Finance, page 211.

and that:

"On unregulated loans over \$1,500 the companies' rates seem to average about $1\frac{1}{2}\%$ monthly."¹

The Royal Commission notes that relatively few loans are made in the \$1,000-\$1,500 area, recommends that the maximum size of regulated loans should be \$5,000, that the 1% per month maximum rate should apply to unpaid balances in a range of from \$300 to \$5,000 and expresses the view that all cash lenders should be subject to uniform legislation.²

(3) *Sales finance companies*

The Report of the Royal Commission on Banking and Finance states that there is a "wide variety of rates charged by the companies, although these are calculated and negotiated with customers in the form of the total dollar amount of the finance charge rather than a rate of interest. For instance, in 1961 the effective annual charges of 17 companies on a standard new car contract varied from 12.5% to 18.8%, with most companies reporting rates from 13.5% to 16%; rates on a smaller consumer contract ranged from 16% to 23%."³

(4) *Credit unions and caisses populaires*

The Report of the Royal Commission on Banking and Finance makes the following statements about the rates charged by credit unions and caisses populaires:

"Credit unions are limited to a 1% per month maximum rate on their loans in most provincial acts; their effective charges, after allowance for insurance benefits and the partial rebates of loan interest which are a regular part of the annual distribution of some co-operatives' income, range between 8% and 10% for most credit unions and a little lower for the larger ones and for rural societies . . .

. . . The caisses have not attempted to offer the strong competition to other institutions in the personal loan market which has been typical of the growth of credit unions, although attitudes towards personal borrowing are changing. Interest rates are low, varying from 6% to 8% on the limited amount of such personal lending they have undertaken . . ."⁴

(5) *Life insurance companies' policy loans*

The submission of the Canadian Life Insurance Officers Association to the Royal Commission on Banking and Finance indicates that the rate of interest does not exceed 6% per annum.⁵

(6) *Retail stores*

No statistics on effective rates charged by department and other retail stores are available so that I cannot refer to a typical rate. Calculations based on schedules distributed by two large department stores indicate that their charges on instalment accounts are equivalent to effective annual interest rates of from 13% to 17% (or sometimes higher) depending on the amount and period of repayment.

¹Report of the Royal Commission on Banking and Finance, page 210.

²Report, page 382.

³Report, pages 206 and 207.

⁴Report, pages 158 and 159.

⁵Submission of the Canadian Life Insurance Officers Association, page 58, para. 4. 54.

(b) *Disclosure of rates of loan or finance charges*

In discussing the charges of sales finance companies the Royal Commission on Banking and Finance makes the following statement:

"It is general practice, and required in some provinces, to disclose the dollar amount of finance charges to customers but the companies do not disclose the effective rate of interest. They have objected to doing so because different methods of calculation give different results and all require some arithmetic skill, because the charges include a necessary fee to cover the cost of servicing accounts and the total charges on small amounts thus work out to high rates of interest, and because they find that customers are more interested in the dollar amount to be paid than in the interest rate. In spite of these objections, we believe there is a strong case for disclosure in both forms so that customers may readily compare the cost of funds in contracts which are not identical as to terms and amount. All generally accepted methods of calculation give closely similar results. Moreover, dealers could be provided with rate as well as charge books and would not have to do the arithmetic themselves; and consumers could hardly suffer from having more information. Since this matter of disclosure applies generally, and not only to finance companies, we shall return to it later."¹

When the Report returns to the subject it states:

"...we do recommend that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty. Different methods of calculation yield slightly different results, but there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so: comparability is more important than the precise level. While we recognize that there is great difficulty in calculating the exact charge if use is made of a revolving credit, there is no reason why the customer cannot be shown the effective charge if he follows a typical plan. Borrowers may indeed be more interested in the dollar amounts of the finance charges and monthly payments than in the effective interest rate, but it will certainly not do any harm—and may well do much good—to let them know the effective rate as well. The distribution of approved rate books by the grantors of credit would minimize any difficulties of calculation from their point of view.

Nor are we impressed with the argument that requiring disclosure would raise the cash price of an article, and thus lead to concealment of the effective interest rate. We believe that, as now, effective competition will keep the cash price at realistic levels, but in order to protect against the possibility of merchants using inflated cash prices for the purpose of calculating interest, the Act should contain a provision that the price of the article must be that at which cash transactions are normally carried out. Finally, this legislation should impose stiff penalties for excessive charges or failure to disclose. At the least, the lender should forfeit all principal and interest on the illegal transactions. In addition, fines should be imposed and, as now, the authorities should have the power to suspend the licenses of lending institutions in cases of flagrant violation."²

¹Report of the Royal Commission on Banking and Finance, page 207.

²Report, pages 382 and 383.

7. Consumer Credit Controls

Governments have concerned themselves with the subject of consumer credit not only in order to protect individual borrowers from usurious charges but also because variations in the down-payments and repayment periods can be used as an instrument of economic policy to influence the total level of spending in the economy. I have already referred to the consumer credit controls that have been introduced in Canada in the past by the federal government.

It is often argued that the demand for consumer durable goods, like other durable goods, tends to be volatile because of the possibility of accelerating or postponing purchases of such goods in the light of changing views about future prospects for business activity or income receipts. Consumer credit may increase this volatility since it adds to the funds available to consumers to purchase durable goods at a time when optimism is high but subsequently adds to the charges against consumer incomes. How important a role consumer credit has played in contributing toward economic instability is a matter that would require a good deal of empirical study. Certainly it seems to have been important at times. For example, in the United States the automobile boom of 1955 was greatly influenced by credit sales. A study undertaken in 1956 by the Board of Governors of the Federal Reserve System states, after an examination of the historical evidence on the role of consumer credit:

"Consumer instalment credit has often been a factor in changes in the level of business activity, but it has not been the principal cause of such changes."¹

Even if variations in consumer credit are not a principal factor in changes in the level of business activity it is still possible that its regulation could contribute to the maintenance of economic stability. One argument against such controls is that they are discriminatory. It is claimed that they discriminate against consumers, particularly those in younger age groups, and that they may have important directional effects that discriminate against lending institutions specializing in consumer credit and manufacturers and merchants specializing in the production and sale of consumer durable goods. Some defend consumer credit controls on the grounds that business investment should have priority over consumption in order to promote economic growth. Others question this view, particularly in a period when other forms of expenditure may already be very high and possibly excessive and they urge that the allocation of funds should be determined by the free market. The difficulties of administering and enforcing consumer credit regulations are also used as arguments against their implementation. But it is also the case that consumer credit controls can be quite effective in reducing spending, particularly in the short-run. As the Radcliffe Committee stated:

"These controls have the advantage of securing a sizeable and rapid impact on total demand; but this is a once-for-all effect, which tends quickly to disappear."²

The Radcliffe Committee expressed the view that consumer credit controls should be included in the combination of policies adopted in times of emergency although there are objections to their use which should narrowly limit resort to them in ordinary times.³

¹Consumer Instalment Credit, part 1, volume 1, page 232.

²Report of the Committee on the Working of the Monetary System, page 183.

³Report of the Committee on the Working of the Monetary System, page 187.

In the United States, the Commission on Money and Credit made no recommendation as to the desirability of granting standby authority to the Federal Reserve Board for consumer credit controls, stating it was almost evenly divided on the subject.¹

In its submissions to the Royal Commission on Banking and Finance the Bank of Canada did not deal specifically with the subject of consumer credit but after discussing instruments of monetary policy it did express the view that in extreme situations it would seem unwise to rule out the possibility of evoking direct measures to control the availability of credit, that there may be times at which it is preferable to resort to selective credit controls rather than to allow the inflationary process to proceed without further resistance.²

In a discussion of selective credit controls the Report of the Royal Commission on Banking and Finance includes the following paragraph on consumer credit controls:

"Consumer credit controls also depend for their effectiveness on the inability or unwillingness of consumers to find alternative sources of finance to provide the higher down payments and the shorter terms of repayment which would be required under such controls. If alternative sources can be readily found by consumers, the attempt to block up one channel of lending will merely encourage the widening of another channel and the effect will be felt quite fully on interest rates. Similarly, to the extent that controls over instalment finance lead to the development of organizations which purchase and lease durable goods, demand has not been curtailed but merely re-directed. There is also a danger that lenders will evade the restrictions by writing inflated cash values for trade-ins into their contracts and employing other stratagems with the collusion of their customers. As we have mentioned earlier, this is a problem likely to arise from repetitive use of the instrument. Whether used periodically or infrequently, control over consumer instalment finance poses severe problems of adequate administration. In this country there is also some doubt as to the federal government's authority to impose them. In any event the imposition of special excise taxes on consumer durables (which strike at all consumers, not just those who borrow) may be just as effective in curbing consumer spending, especially if they are thought likely to be withdrawn in the fairly near future."³

Later in its report after discussing problems associated with international flows of capital it adds the following:

"If these international limitations seriously limit our ability to use general monetary measures to restrain critical inflationary pressures, we would not rule out the use of more selective instruments with less interest rate consequences. These might include direct measures to restrict the type and amount of credit granted by financial institutions and changes in the terms of NHA lending. (We do not know whether consumer credit regulations lie within the federal power, and in any event a general increase in sales taxes might be more equitable and just as effective.)"⁴

Discussions of consumer credit controls often raise the question of how responsive consumer credit is to broader financial policies, including monetary policy. Once again, I can refer you to what the Royal Commission has to say,

¹Report of the Commission on Money and Credit, page 74.

²Submissions of the Bank of Canada to the Royal Commission on Banking and Finance, page 28.

³Report of the Royal Commission on Banking and Finance, page 477.

⁴Report, page 529.

particularly the discussion under the heading, "Finance and Loan Companies in Credit Cycles", pages 216-222 of its Report, from which the following quotation is taken:

"The cyclical behaviour of all institutions but the sales finance and small loan companies has been broadly similar. In periods of restraint such as 1955-57 and 1959 their rates of growth have fallen sharply when the central bank has brought pressure to bear on the system's cash reserves and interest rates have risen. Similarly, they all tend to expand rapidly at the same time, as in 1954-55 and 1958. On the other hand, the assets of sales finance and consumer loan companies have grown more rapidly than usual in years such as 1956 and 1959 when interest rates were high and the total resources of the other institutions were under pressure, and have grown less rapidly or declined in periods of easier money.

This is not because the companies' earnings and growth are unaffected by the higher cost of funds associated with monetary restraint. However, the business of sales finance and consumer loan companies has been much more influenced by the demand for funds from their customers than by the cost and availability of funds from holders of their liabilities. Consumer demands for credit—like those in all sectors—have been strongest in economic expansions when consumers are optimistic and have high demands for automobiles and other durable goods, and consumers seem more prepared than others to pay relatively high rates of interest for the credit needed to go ahead with their purchases. Thus, institutions specializing in lending to them are able to take on earning assets quickly and, because the yields on these assets are high, are able to pay the high rates necessary to attract funds even in periods of credit restraint. Moreover, finance companies are able to charge higher rates on their business lending than the banks are permitted. The process is made easier for them by the fact that they rely for funds mainly on a limited number of sophisticated lenders in the central financial markets; these lenders, being much more sensitive to rates than the general public from whom other institutions borrow relatively heavily, will make substantial amounts of additional funds available to the companies if attractive rates are offered.

This, of course, is how a price system should work. The cyclical behaviour of the liabilities of sales finance and consumer loan companies shows that funds do flow to the borrowers willing to pay most for them, particularly when rates are high and funds are limited. Thus, the fact that lending by sales finance and consumer loan companies rose in the tight credit conditions of 1956-57 and 1959 is not evidence of a failure in the workings of general monetary policy but of an appropriate response to market forces."¹

This completes the survey that I have undertaken of the readily available information on consumer credit, Mr. Chairman. I shall be glad to try to answer any questions that members of the Committee may have.

¹Report of the Royal Commission on Banking and Finance, page 219.



Second Session—Twenty-sixth Parliament
1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 4

TUESDAY, JUNE 23, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

WITNESSES:

Ontario Credit Union League: Mr. John M. Hallinan, General Manager.
Mr. John H. F. Burton, Assistant Supervisor of Examinations.

APPENDIX

B—Brief from the Ontario Credit Union League

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-
Rainy River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Deachman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Pennell
Ryan
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brookes, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

"On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Crétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report, as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, June 23rd, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Hollett, Irvine and Smith (*Queens-Shelburne*),

and

House of Commons: Messrs. Greene (*Joint Chairman*), Chrétien, Irvine, Miss Jewett, Messrs. Marcoux, McCutcheon, Orlikow and Scott—(12).

In attendance: Mr. John J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Scott, it was Resolved to print the brief submitted by the Ontario Credit Union League as appendix B to these proceedings.

The following witnesses were heard:

Ontario Credit Union League: Mr. John M. Hallinan, General Manager; Mr. John H. F. Burton, Assistant Supervisor of Examinations.

At 12.05 p.m. the Committee adjourned until Tuesday, June 30th, 1964, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, June 23, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10:00 a.m.

Senator DAVID A. CROLL and Mr. J. J. GREENE, M.P., Co-Chairmen, presiding.

Co-Chairman SENATOR CROLL: We have a quorum. We have before us today a brief submitted by the Ontario Credit Union League Limited, a copy of which has been in your hands for some days.

Motion adopted that the brief be printed in the report of the proceedings. (*See Appendix B*).

Mr. SCOTT: When was this available? I do not recall seeing it.

Co-Chairman Senator CROLL: The copies were mailed out on Wednesday last and should have been available to everyone on Thursday.

There were two matters arising out of our last meeting, the composition of the federation of sales agencies and the flow of American capital. I would ask Mr. Urie to speak about them.

Mr. JOHN J. URIE: I regret I was unable to be here last week but I have read the transcript. I understand the committee wish to know the composition of the Sales Finance Federation and to ascertain which of the two major companies are not members of that organization. I have written to the federation asking for this information and have not received a reply yet. I expect it to be in my hands by our next meeting.

With respect to the source of funds for both consumer finance and sales finance company, Mr. L'Heureux has been actively engaged in getting information and he has had an interview with the Superintendent of Insurance, he has been with the Dominion Bureau of Statistics. In that regard I expect to have a report for you next week.

The third question, raised by Mr. Scott, I believe was on the question of the losses on loans and the ratio of the losses to actual amount of business. We are able to give you a reference in that regard. It is to a report which was submitted by Mr. MacGregor, Superintendent of Insurance, during the course of his testimony. It is a report for the year ending December 31, 1962, which each member has. On page vii of that report will be seen a table showing delinquent small loans account as at December 31, in each of the years 1960, 1961 and 1962. That report shows the delinquent balances, the percentage of the total balances over the periods from one-two months, two-three months, three-four months, and over six months. I think this is the information Mr. Scott asked for. If there is any further information required, I shall try to get it.

Co-Chairman Senator CROLL: At this point, I would like you to keep in mind that the next meeting will be in camera for the purpose of discussing the

bills that were sent on to us, and for further discussion, the constitutional question involved. Our solicitor will carry the ball during that meeting.

We have before us this morning, on Mr. Greene's immediate right, Mr. John Hallinan, General Manager of the Ontario Credit Union League Limited, and Mr. John Burton, Assistant Supervisor of these various credit unions in Ontario.

I asked Mr. Hallinan not to read the brief, but to give us a summary of it, after which questions may be asked, if that meets with your approval.

Mr. John M. Hallinan, General Manager, Ontario Credit Union League Limited: Mr. Chairman and members of the committee, first of all, I should like to express my sincere appreciation for being invited to appear before this joint committee. We hope we shall be able to submit information that may be of value to you.

On my right is Mr. John Burton, Assistant Supervisor of Examinations for the Ontario Credit Union League Limited, who will give you a clear outline of his duties.

The brief is summarized on page 1. It is submitted by the Ontario Credit Union League Limited. First of all, I should like to make a correction, since the brief was prepared; instead of 1,420 member credit unions in Ontario, there are now, 1,425.

Section 2 of the brief deals basically with the purposes of the credit union. It is primarily to encourage thrift among its members, and through the pooled savings of these members, funds are available at a reasonable rate of interest for provident and productive loans.

Credit unions, as you know, are incorporated under provincial charter. These are thoroughly outlined in the respective provincial acts. I will confine myself strictly to Ontario, because that is the act under which we operate.

We are very much in favour of certain recommendations brought down by the Porter Commission in respect to full disclosure of interest rates.

The maximum interest that may be charged is 1 per cent per month on the unpaid balance of the loan, and this interest covers all charges and penalties.

We believe that the public is entitled to know about the percentage-wise amount of money that a loan is going to cost them.

The majority of credit unions in Ontario charge the maximum, although the majority also pay an interest rebate at the end of the year, which substantially reduces the actual or net cost of the loan.

Senator HOLLETT: I notice that it states on the first two lines of page 2 "maximum rate of 1 per cent per month on the unpaid balance equals 12 per cent simple interest per annum." Is that right?

Mr. HALLINAN: That is correct, sir.

Senator HOLLETT: I can't agree with you, but still—

Mr. HALLINAN: That is what the economists state.

Mr. URIE: I will ask the accountant of the committee about that.

Mr. L'HEUREUX: Yes, it is.

Senator HOLLETT: I still don't agree.

Mr. HALLINAN: I mentioned the interest rebate; and I think that is spelled out.

We make reference to rural groups that usually charge between $\frac{1}{2}$ per cent to $\frac{3}{4}$ per cent per month. We do not agree with those people who hold that you cannot come up with a formula. We believe you can. I believe it was pointed out at the bottom of paragraph 2 on page 2 that another feature of credit union loans is that in those credit unions that are members of our league, all of which

are life-insured, there is no added cost to the borrower; which means that if a member dies, or becomes totally disabled, that person is fully covered. Formerly, that applied only to the western hemisphere, but now it has become a world wide program, and the loan is paid off and the credit union does not come against the estate of the deceased.

In paragraph 4 we summarize the type of security. Promissory notes are always taken on credit union loans, whilst security taken may include chattel mortgage, assignment of wages, shares held by the member, and endorsement by a co-signer.

In paragraph 5 we deal with the method of payment of loans; and because of the fact a credit union is more than just an association of money, but rather an association of persons, we try to bring the human element into it, and I think the delinquent borrowers are treated very fairly and with compassionate consideration in cases of need.

In Ontario, the majority of loans are personal. A relatively small amount is loaned out on first mortgages, and we have set down certain regulations respecting mortgage loans. We were very happy to learn from the Porter Commission Report that apparently, they would like to see credit unions go into the mortgage field more extensively.

Paragraph 7 gives in greater detail the full disclosure. I might say that it has always been the practice of credit unions to give full disclosure of interest rates and interest costs.

Paragraph 8. Again, we reiterate our feelings in respect to certain recommendations made by the Royal Commission on Banking and Finance.

That, Mr. Chairman, gives the committee a brief resume of our brief. I am prepared to answer any questions, and with my very able assistant, Mr. Burton, I think we should be able to resolve them.

Mr. URIE: Mr. Hallinan, it might be of interest to the members of the committee if you indicated to them just how credit unions are started, how they are composed, how they are governed, and that type of thing.

Mr. HALLINAN: Possibly to take an example, there are various types of credit unions: industrial, parish, community and ethnic groups.

Mr. URIE: This is the "common bond" spoken of in the act under which you function?

Mr. HALLINAN: Let us take the industrial one, as for example the Steel Company of Canada, which is one of the largest industrial credit unions in the country. Back about 1939, a group of employees, steel workers, studied the credit union idea, and they decided to incorporate the credit union. First of all, the membership was limited to employees of the Steel Company of Canada—the Hamilton workers. So from amongst themselves they elect a board of directors which is charged with the general management of the credit union; they elect another committee to deal with all loan applications; and thirdly, they elect among themselves a supervisory committee composed of three people, whose function is to chiefly audit the books of the credit union.

Getting back to the original concept of the credit union, it was built on thrift. Every person agrees with himself to set aside "X" number of dollars out of each pay. Through the accumulated savings of these people you have created a source of credit. Any member may go and apply for a loan for any provident or productive purpose, and that is of rather broad scope; but basically it means that it will be a loan that will improve that member's or his family's standard of living.

Mr. URIE: Does that money get into the credit union by virtue of subscription of shares or by deposits?

Mr. HALLINAN: Both. There are two types of savings, shares and deposits. Shares as used in the credit union are not exactly like shares in a private

company; there are no certificates issued, or anything of that kind. A share is a unit of savings, usually \$5. So that a credit union's chief source of income is from the interest that it receives on the loans to its own members. From its gross income it pays its operating expenses, and at the end of the fiscal year are the resultant net earnings.

The provincial law requires that 20 per cent of net earnings be set aside, into what is known as a guarantee fund, the sole purpose of which is to take care of any bad or uncollectible loans. The balance is distributed among the members by way of dividends and interest rebates.

Mr. URIE: The dividend is paid on the shares and the interest on the deposits, I take it?

Mr. HALLINAN: Yes, that is right.

Mr. URIE: What are the rates?

Mr. HALLINAN: It varies. I think the average dividend last year in Ontario was about $4\frac{1}{2}$ per cent.

Mr. URIE: What about the interest on the deposits?

Mr. HALLINAN: That is usually about 4 per cent. Well, it varies because the beauty of the credit union concept is that each individual credit union membership determines what they are going to do as to surplus.

Mr. URIE: Who determines whether they are going to invest it in shares or place it on deposits?

Mr. HALLINAN: The individual member.

Mr. URIE: Is there an advantage to the individual depositor one way or another?

Mr. HALLINAN: Shares are considered permanent savings, and deposits temporary savings. There is a statute that states you must give 60 days' notice, but in practice that never happens. A person can go in and make a withdrawal on demand.

Mr. URIE: Does a member having 100 shares have 100 votes?

Mr. HALLINAN: No, one member, one vote—regardless of the amount of shares he holds.

Mr. URIE: Would you go on, Mr. Hallinan? Is there anything more to say on that particular line?

Mr. HALLINAN: No.

Mr. URIE: What is the difference between a credit union and a *caisse populaire*?

Mr. HALLINAN: They are basically exactly the same, except in the *caisses populaires*, as Dr. MacIntosh of the royal commission pointed out, their loans are chiefly for mortgages, whereas in the case of credit unions in English-speaking Canada their loans are chiefly for personal purposes. However, the tendency is changing, from information I have received, and it is too bad my good friend Senator Vaillancourt is not here to corroborate what I am going to say. The tendency in Quebec is moving more to the credit field.

Mr. URIE: And the tendency of credit unions is to get more into the mortgage field?

Mr. HALLINAN: Yes.

Mr. URIE: Has not the membership of *caisses populaires* a different composition? There is not the common bond aspect?

Mr. HALLINAN: Yes, it is a little wider, possibly. *Caisses populaires* are largely in community groups.

Mr. URIE: You have other facets of your organization? I understand you have 1,425 in your league. Would you describe to the committee what that league does for the credit union locals or chapters, are they?

Mr. HALLINAN: No, individual credit unions. Chapters are another thing. The league is a voluntary association of chartered credit unions for the province of Ontario, and the prime purpose is set out in section 53 of the Credit Unions Act, to promote, develop and protect the credit unions in our jurisdiction. We promote the credit unions by organizing new ones. We have a staff of four professionals whose sole purpose is to go out and organize credit unions in industry, parishes, communities and among ethnic groups, because the credit union, by its very nature, is dynamic and it is not static.

The other function is the protection of it, and we do this in several ways. First of all, we arrange for group bonding. Every person who has custody of funds, by law, must be bonded, and through a collective arrangement with Employers' Mutual CUNA has arranged a bonding program. In addition, we have an examination program, and Mr. Burton is the Assistant Supervisor of Examinations, and I would like him to give you in some detail what that function is.

Mr. John H. F. Burton, Assistant Supervisor of Examinations, Ontario Credit Union League Limited: Mr. Chairman, about 20 years ago there were only 400 credit unions in Ontario, and now there are about 1,500. Back in 1956-57 the provincial government was very concerned about the examination and supervision of these credit unions, and it came to a point where the attorney general said, "Either the credit union movement must police itself, or the Department of Insurance Credit Unions Branch must expand considerably to cope with the adequate supervision of the credit union movement in the province." The Credit Union League turned around and said they were very willing to accept the responsibility of expanding their own supervisory program. An arrangement was made whereby the league would examine at least every two years every credit union which was a member of the league, which constituted the large majority of credit unions in this province. 96 per cent of the credit unions are members of the league. So the Credit Unions Act was amended to give the league authority to examine any member credit union. Our own individual membership dues were increased from 50 cents to \$1, and our examination staff in 1958 was largely increased, and now we are examining about 700 credit unions a year. This is not an audit in the professional sense, but it is a very comprehensive examination headed by a public accountant who is my direct senior, and our examiners throughout the province complete a very comprehensive set of working papers for every examination. They cover not only the and they are all processed through our head office in Toronto. The Department of Insurance is given a copy of every report made to the president of the credit union, and any irregularity is drawn to the directors attention in the report so that it is drawn to the attention of the government authority.

We were very interested to find in the report of the Royal Commission on Banking and Finance that the commission was very much in favour of the leagues taking an increasingly active part in self-examination, supervision and policing of their own organizations. Certainly, Ontario has been doing this now since 1958. In addition, the Royal Commission on Banking and Finance has recommended that the examinations be made at least once a year. Of course, in addition to our own examinations the Government does have inspectors, but they do not have sufficient to bring this examination of credit unions up to once a year.

Mr. URIE: You said you have about 700 examinations a year, which means you examine each credit union about once every two years?

Mr. BURTON: Yes, this is the agreement we made with the Government.

Mr. URIE: Does the Government do a similar examination within that period of time?

Mr. BURTON: The idea was they should attempt to do it in the year we did not, but it has not worked out that way.

Mr. SCOTT: Is this a spot audit, or do they know you are coming?

Mr. BURTON: Generally, they know we are coming. If we suspect any difficulties we may make a surprise visit.

Mr. URIE: What happens to the other 4 per cent in Ontario which are not members of your league?

Mr. BURTON: They depend entirely on the Government examination or inspection. The large ones do have external auditors, but otherwise they depend on their own supervising committee and on the Government inspection.

Mr. URIE: I notice in one of your tables, at appendix 2, you show credit unions reporting number 1,283. Does that indicate there are some of your members who do not report to you, when you have 1,425?

Mr. BURTON: Yes, but, of course, first of all this is 1962 statistics. We did not have quite so many members then. On the other hand we, as a league, do not have any compulsive authority over them. We request them for this information which is taken from their annual reports, but if they do not supply them we cannot compel.

Mr. URIE: If they do supply them and there are errors or things you wish to rectify, you still have no compulsive powers over them?

Mr. BURTON: No, that is quite correct. We make strong recommendations and, in extreme cases, we draw the Government's particular attention to things if the credit union will not co-operate, but we generally find they do co-operate very largely with the recommendations made by ourselves.

It would appear that there may be about 12 per cent of the credit unions of Ontario who do not report.

Mr. BURTON: Ten or 12 per cent, possibly. But we do examine these. The majority that don't report would be very small ones, and there are a very large number with assets of less than \$50,000.

Mr. URIE: That is sufficient on that aspect unless you have something.

Mr. HALLINAN: I would like to speak on some of the other aspects. In addition to the services we have already enumerated, we operate what is known as a league central. It is a credit union for credit unions. Those unions which have funds they do not need for their own members may deposit those funds with the league and the league in turn lends them out at 5½ per cent per annum to credit unions whose demands may be in excess of their liquid cash at any given time. The league central at the moment has assets of \$12 million.

Mr. URIE: How are they invested, Mr. Hallinan?

Mr. HALLINAN: In credit unions. And we do have a very small amount of very good bonds, Dominion of Canada.

Mr. URIE: You have the power to invest in the same investments as insurance companies.

Mr. HALLINAN: Yes, but the demand is sufficient to take care of the funds available except for about \$60,000 that we have in government bonds. As the economy develops we may have more funds available for investment of the type authorized for joint stock insurance companies, but up to this point we have not had occasion to go into that field.

Mr. URIE: Go ahead.

Mr. HALLINAN: Does that answer your question in respect to the league central?

Mr. URIE: The chapters then, what are they?

Mr. HALLINAN: They are unincorporated voluntary groups of credit unions set in a well defined geographical area whose prime purpose is education. They meet, usually monthly, and they put on an educational program instructing the credit unions in the area on proper procedures and methods of operation. In addition to that we have an education department that conducts schools in these chapter areas. They also release monthly educational releases that are pertinent. Then in addition to that we have our "Ontario Credit Union News" which has a circulation in excess of 100,000. That disseminates credit union news provincially, nationally and internationally.

Mr. URIE: You have told the members of the committee of two sources of funds, firstly, the sale of shares, and, secondly, the deposits. Now you have a third source of funds, as I understand it, borrowing. Would you care to enlarge on that?

Mr. HALLINAN: Yes, credit unions may borrow from league central, and they may by law borrow from any source. I would suggest that by and large they borrow primarily from league central, and in some instances from chartered banks.

Mr. URIE: Have they any other source of funds at all?

Mr. HALLINAN: Appendix 3a—you will notice there "Liabilities"—"Loans". That means credit unions that have borrowed these funds from the Ontario Co-operative Credit Society. That is the Ontario Credit Union League, and where it is marked "Other" that would be chartered banks or other credit unions. Any credit union may lend to another credit union under the act.

Mr. URIE: There is one organization you have not touched on—what is this O.C.C.S.—what is that?

Mr. HALLINAN: That is the Ontario Co-Operative Credit Society.

Mr. URIE: Is there any difference in the way funds obtained from sales of shares and those from deposits are invested?

Mr. HALLINAN: About 85 per cent of credit union shares and deposits are invested in loans to members.

Mr. URIE: There is no distinction between the two?

Mr. HALLINAN: No. Let us put it this way, 85 per cent of the funds of the members are invested in the members.

Mr. URIE: How would that compare with the caisses populaires?

Mr. HALLINAN: I am not aware of their statistics, but I would imagine the statistics when I knew them last would show that some of their funds were invested in municipal debentures and government bonds. I think their percentage would be higher.

Mr. BURTON: About 33½ per cent, roughly, of caisses populaires funds are invested in government bonds, school, municipal and other debentures.

Mr. URIE: Caisses populaires operate quite extensively chequing facilities for their members much in the same way as a savings account in the chartered banks. Do your credit unions offer this facility to their members?

Mr. HALLINAN: Not to that extent. In Ontario, as far as our statistics reveal, there are 60 credit unions with secondary chequing. The vast majority do not feel that secondary chequing at the moment is a necessary service. In fact only at the spring session of the provincial legislature was an amendment to the Credit Unions Act brought down that regulated secondary chequing.

Mr. URIE: What are those regulations?

Mr. HALLINAN: Basically a credit union must have at least \$100,000 of assets before it can get into it, and it must have at least one full-time employee, and it must engage external auditors and have a satisfactory accounting system.

Mr. URIE: And it must have far more liquid assets, presumably?

Mr. HALLINAN: Yes.

Mr. URIE: They would not have 85 per cent out on loan?

Mr. HALLINAN: The difference is understood when you look at it in this light; the majority of credit unions in Ontario are industrial credit unions. The member also has a bank account to look after it. In Quebec with the caisses populaires there are large areas where there is not a branch of a bank, large rural areas. For that reason the facility is useful there, but the same would not be necessary in Ontario where you have the widespread banking facilities.

Mr. URIE: I suppose that might also be true of western Canada.

Mr. HALLINAN: Yes. I would like to point out that credit unions are not competitors of the banks.

Co-Chairman Senator CROLL: Do the banks agree with that?

Mr. HALLINAN: They may be in competition with us, because they have started to go into the field that we have pioneered.

Mr. URIE: I call your attention, Mr. Hallinan, to your appendix 3b. You mentioned earlier in your testimony that the vast majority of the work done by credit unions is done by volunteers.

Mr. HALLINAN: That is true.

Mr. URIE: How many employees on the average do the individual credit unions have?

Mr. BURTON: The majority of our employees will have other full-time employment.

Mr. URIE: What does the heading "Salaries and Honoraria" mean? Even the smallest credit unions have a figure of over 6 per cent for that.

Mr. BURTON: It is more usual for the smaller credit unions to pay honoraria. As they get a little larger they will pay the treasurer something, or they will hire him on a part-time basis which will be in addition to his usual job, because the work has become more than that which requires a few hours a month.

Mr. URIE: At what stage do you reckon a credit union is forced into the position of employing full-time help?

Mr. BURTON: Mostly it would not occur until the \$150 thousand or \$250 thousand mark is reached. When they reach the one-quarter to one-half million dollars mark then most of them will have at least one full-time employee.

Mr. URIE: What is meant by the heading "Share and Loan Insurance"?

Mr. BURTON: The vast majority of credit unions have insurance on their members' savings and on the members' loans, which is provided in most cases by CUNA Mutual Insurance Society which is the movement's own insurance company. Savings are insured up to \$2,000 at 100 per cent for all moneys put in before age 55 years, and then there is a graduated scale up to age 70 years. But, once you put money in it is always insured if you live to be a hundred. Loans are insured up to age 70 years to a total of \$10,000 in their entirety.

Mr. URIE: By "loans" do you mean deposits?

Mr. BURTON: No, loans made to members.

Mr. URIE: Why is that put in under the heading of "Expenses"?

Mr. HALLINAN: That is the premium.

Mr. URIE: The one per cent that you charge does not include the premium on the life insurance?

Mr. HALLINAN: Yes, it does.

Senator HOLLETT: Are you insured with the ordinary insurance companies?

Co-Chairman Senator CROLL: No, with their own.

Mr. BURTON: CUNA Mutual Insurance Society is an American company. It is about the twelfth largest life insurance company in America. They have assets of about \$8 billion, but they insure only credit unions. This is an expense to the credit union, and is included in the one per cent.

Mr. SCOTT: Are their rates lower than normal insurance rates?

Mr. BURTON: It is hard to compare them because the other insurance companies do not insure savings. I do not know about the insurance on loans, but I would hazard a guess that its rates are lower because it is a mutual company.

Mr. URIE: What is the rate?

Mr. HALLINAN: It is 65 cents per month per one thousand dollars.

Co-Chairman Mr. GREENE: Do you go into the ordinary insurance market, or do you buy all your insurance from them irrespective of the market?

Mr. HALLINAN: Well, it is our own insurance company.

Mr. ORLIKOW: It is part of the whole package of doing business which makes for the low rate that you have.

Mr. HALLINAN: That is correct, sir.

Mr. BURTON: If I might add a few words I will say that a few commercial companies are trying to get into the field by offering lower rates to the large credit unions which have had good experience, and their rates follow according to that experience. Our own insurance company, at least until recently, charged an over-all rate to all credit unions regardless of their experience, and it also paid a dividend every year irrespective of its experience. Largely because credit unions are now being offered insurance by commercial companies our own company has been forced to reduce its rates, and to offer competitive rates based upon experience, and a dividend based upon experience.

Co-Chairman Mr. GREENE: When you say that you own this insurance company you mean that the League owns it, do you not?

Mr. HALLINAN: All the credit unions within the movement, or within the Leagues of nine of the Canadian provinces, the 50 States, the British West Indies and Australia, and so on.

Co-Chairman Mr. GREENE: You do not mean that you own it in the way of having bought into it? You own it just as you would own any other mutual insurance company if you bought your insurance from it?

Mr. HALLINAN: Well, we have control over it because we elect the directors. We have two Canadians on the board of nine all the time. The caisses populaires have an insurance company of their own known as La Vie d'Assurance Desjardins, which fulfills the same function for the caisses populaires as the CUNA Mutual Insurance Society does for the credit unions.

Mr. URIE: You said that 65 cents per \$1,000 is the cost of the insurance. Have you any idea of how that compares with the cost of life insurance on loans made by consumer loan companies?

Mr. HALLINAN: No, I could not answer that question.

Mr. URIE: Under the heading of "Occupancy Costs" the percentages seem to be extremely low. How does that come about?

Mr. HALLINAN: I think that can be explained by the fact, first of all, that with respect to credit unions in industry management, by and large, recognizes that the credit union is a real asset to the employees and in most cases will give free office space. Of course, the larger credit unions have built

their own buildings. You will notice that as we go up in size the percentage of occupancy costs increases. That is because of the fact that the larger credit unions either rent their own places of business or own their own buildings.

In parish groups very frequently the parish hall is given free of charge, and some of the ethnic group unions usually have a hall which serves the group by and large as office space.

Co-Chairman Senator CROLL: Then, what does "Office" mean?

Co-Chairman Mr. GREENE: Stationery, probably.

Mr. HALLINAN: That would be office expenses.

Co-Chairman Senator CROLL: And not the rental of the office space?

Mr. URIE: You are referring to postage, stationery, stenographers, clerks, and so on?

Mr. HALLINAN: That is right.

Co-Chairman Mr. GREENE: Why do the ethnic groups subscribe so frequently to your organizations?

Mr. HALLINAN: When they come out here they seem to be very co-operatively minded. We have some magnificent ethnic groups in the Toronto area—the Ukrainians, the Hungarians, the Latvians and the Estonians. They seem to have a distrust of doing business outside their own group with banks and finance companies.

Mr. SCOTT: They are very wise.

Mr. URIE: I think one thing that is very noticeable in your list of expenses is that there is no item for loss on loans.

Mr. HALLINAN: That would be taken care of, Mr. Chairman, by the guarantee fund. As I mentioned in my earlier remarks, the law requires that 20 per cent of net earnings be set aside into a guarantee fund, and any loss would be charged to that guarantee fund.

Mr. URIE: It is not charged as an expense?

Mr. HALLINAN: That is right, it would show up in the balance sheet rather than in the expenses.

Mr. URIE: There is something about that guarantee fund in that when it reaches a certain figure the credit union may not be required in any given year to turn over 20 per cent of its earnings.

Mr. HALLINAN: That is correct. A recent amendment to the act provides that once a credit union's guarantee fund equals five per cent of the savings of its members then that credit union, at an annual meeting upon the recommendation of the board of directors, need not set aside 20 per cent but a lesser amount, depending upon the recommendations. That also has to have the approval of the Superintendent of Insurance. Some of the larger credit unions requested it, and the League brought it before the Attorney General.

One of the federal civil service credit unions had a guarantee fund that was absolutely unrealistic. I think they had written off \$1,200 in 22 years, and the guarantee fund stood at \$200,000. In circumstances like that the amendment to the act permits that credit union—and it is for the members to decide—to set aside nothing, or something less than 20 per cent.

Mr. URIE: In that connection, some of the credit unions have bigger loss ratios than others. Is there any pattern to that with respect to, say, the industrial credit unions as opposed to the credit unions of ethnic groups or religious groups?

Mr. BURTON: Yes, the community or parish type tend to have a considerably higher delinquency rate, and there are several reasons for that. One is that generally they do not have payroll deduction facilities which the majority of industrial credit unions have. That, of course, is the painless way

of repaying a loan. Most industrial credit unions only have a delinquency problem with respect to the borrower who leaves the employment of the parent company. In the community or parish groups there are no facilities for payroll deduction and of course, it is commoner for people there to become delinquent.

Mr. URIE: Can you give some percentage figures per annum for each of the types of credit union?

Mr. BURTON: We do not have a percentage for that, because the thing we are concerned with is to see that the guarantee fund is always adequate and sufficient to cover the loans on which no demand has been made for six months.

Co-Chairman Senator CROLL: That is not the point he was getting at. There is no question about the guarantee fund being adequate. There must be some percentage in your mind of deficiency or default.

Mr. BURTON: We have an over-all percentage of write offs to carry forward, it is approximately one-half of one per cent, but we have no breakdown as between various groups.

Co-Chairman Senator CROLL: Talking about industrial groups for a moment, if a man earns \$60 or \$80 a week, what would he be likely to deposit with the credit union, or is there a difference between a man earning \$60 and a man earning \$80.

Mr. BURTON: It would make a difference when he would apply for a loan, we would consider the size of the loan and the period of repayment.

Co-Chairman Senator CROLL: What would he deposit weekly, monthly or semi annually?

Mr. BURTON: If he is earning \$80 a week and paid weekly, he might well pay off \$10 or \$15 a week.

Co-Chairman Senator CROLL: I am talking about deposits, not about paying off a loan.

Mr. BURTON: Generally speaking, in paying off a sizeable loan, the amount deposited may only be \$1 or \$2.

Co-Chairman Senator CROLL: A dollar or two, what is the average?

Mr. BURTON: There again we would not have statistics on that. Most credit unions do not compel their members to deposit certain amounts. They just try to encourage them. If they are paying \$10 off a loan, they will try to encourage them to pay an extra dollar or two a week into the savings at the same time.

Co-Chairman Senator CROLL: Do you not have people who come in making deposits, without any thought of a loan?

Mr. BURTON: Yes.

Co-Chairman Senator CROLL: That is what I am getting at.

Mr. BURTON: They may pay \$5, \$10 or \$15 a week. These are the savers who do not borrow.

Co-Chairman Senator CROLL: What percentage do they represent?

Mr. BURTON: Let me put it another way. Out of 1,000 members of a credit union, on an average 400 are borrowers—as well as savers, of course—600 are savers only, but of course it varies between small savers and large savers.

Mr. URIE: You stated earlier that your percentage of interest charges is 1 per cent per month, yet a person who is borrowing may also be a saver and is getting a return on his saving of 3 per cent or 4 per cent. Is not the effective rate of interest considerably higher, under those circumstances, to that particular individual?

Mr. BURTON: The amount he gets on his savings may have no relation to his loan.

Mr. URIE: Surely it does, because you place out the money at 12 per cent, he borrows at 12 per cent so, without going into exact figures, it might be between 4 per cent and 12 per cent.

Mr. BURTON: He is probably getting 5 per cent on his shares. The insurance is worth almost three-quarters of one per cent. He pays 12 per cent for his loan. But in many of the big industrial credit unions he gets 25 per cent of that money back. He only pays in the end 9 per cent or less and that also is insured, so the spread is not very much.

Mr. URIE: The effective rate is pretty well the same, then?

Mr. BURTON: Yes.

Co-Chairman Mr. GREENE: What percentage of savers would you have? Have you limits of savers over \$1,000?

Mr. HALLINAN: That would be hard to answer. The average savings are shown in appendix 3a.

Mr. BURTON: Appendix 3a gives some idea—\$1 million to \$3 million. You will see at the foot of the column "average investment per member . . . \$1 million to \$3 million, \$636" In the Steel Company of Hamilton the average investment is over \$1,000 per member.

Co-Chairman Senator CROLL: How many members are there?

Mr. BURTON: About 12,000.

Co-Chairman Senator CROLL: That is the highest paid group in the country with the best employment record.

Mr. BURTON: Yes.

Co-Chairman Mr. GREENE: What is the average size of the loan?

Mr. BURTON: It is very difficult to say. This is one of the things that the Banking and Finance Commission have suggested credit unions should be able to produce, that is statistics in the same way as the *caisse populaire* produce them. We have not been successful in getting credit unions to provide such statistics. We are working on this. It is one case where we have not got the average loan.

Mr. URIE: You might tell the co-chairmen what limitations there are on loans to individuals.

Mr. BURTON: Under the Standard Bylaws of Ontario, a credit union is limited to making loans of \$1,000 or 5 per cent of the credit union's capital resources, whichever is the greater, with a maximum of \$3,000, except that this may be increased by the amount of shares that the member has. In other words in a credit union of \$100,000, he could borrow \$3,000 plus, if he has \$1,000 in shares, another \$1,000, making a total of \$4,000. In other words they could lend him his own money, plus a maximum of \$3,000. Over \$3,000, they can make a loan provided it is not more than 5 per cent of the capital, etc., up to \$10,000, provided the credit union holds first mortgage on real estate between \$3,000 and \$10,000.

Co-Chairman Mr. GREENE: Five per cent of the capital or of the reserve?

Mr. BURTON: Everything on the liability side except loans—the capital and reserves.

Senator HOLLETT: Would you mind explaining what is given on page iii, paragraph 7, which says "a simple formula for calculating the simple interest annual rate is as follows:" As I read it, it is the rate being equal to 2 multiplied by the number of payments in a one-year period, multiplied by the total cost of the credit. Suppose I am going in to you for a loan of \$1,000. How am I going to know what the total cost of my credit is going to be?

Mr. BURTON: If you do not believe us you could work it out by a formula on the previous page, where there is a simple formula for calculating the amount of interest that you have to pay. To calculate the rate of interest, you have to know the amount of interest.

Senator HOLLETT: If it is 6 per cent, 1 per cent per month?

Mr. BURTON: You have to know the dollar amount also. This formula on page iii gives the total cost of the credit. You asked "How would I know what the total cost is".

Senator HOLLETT: What I am trying to find out is how do I work out that simple formula. I have tried it here but cannot do it.

Co-Chairman Senator CROLL: Would you work it out Mr. Burton?

Senator HOLLETT: I want to borrow \$1,000 and pay it all in a year by 12 payments.

Mr. BURTON: First of all, going back to page ii, there is a simple formula working out the cost of the interest. You want \$1,000, and you are going to pay it monthly in the course of a year at 1 per cent per month, making 12 payments in the year. First of all, how much is it going to cost you in the first instance in interest? The number of monthly instalments is 12 plus one, which makes 13, over 200. That is multiplied by the full amount, which is \$1,000. That is a simple sum which comes to \$65. In other words, the interest which you will be charged is \$65. Then we can work out, according to the formula on the next page, what the rate of interest is. We tell you it is 12 per cent, but if you do not believe that we will prove it. The annual rate of interest is equal to two times the number of payments in a one-year period, which is 12. That is multiplied by the total cost of the credit, which we have worked out at \$65. That is over P, which is the principal, which is \$1,000, times the number of payments actually scheduled plus one, which is 13. Therefore it is two multiplied by 12 multiplied by 65, over 1,000 multiplied by 13. I think you can work that out pretty easily. It is exactly 12 per cent.

Senator HOLLETT: Thank you very much. I was thinking of a case that was mentioned the other day under the Unconscionable Transactions Act, where a man borrows \$2,500 and receives \$1,500 the balance having gone into costs. That does not happen in your case?

Mr. BURTON: No.

Mr. SCOTT: You were saying that the borrower is made aware right at the beginning of the true cost of a loan, the interest charges, etc. Do you have a form for the borrower to fill out?

Mr. BURTON: Yes.

Mr. SCOTT: Do you have one with you?

Mr. BURTON: No, we haven't one with us. Of course, in the case of industrial, parish, community and ethnic groups, everyone knows what the interest rate is. Everybody is aware that the rate is 1 per cent per month on the reducing balance, but one thing you won't find is the cost of the interest; and if the recommendation of the Banking and Finance Commission goes through, with which we agree, and whereby every lending agency should state not only interest cost but the dollar value, we ourselves would have to include that.

Co-Chairman Senator CROLL: But that was not your question, Mr. Scott, was it?

Mr. SCOTT: In the earlier part of your brief you were emphasizing the need for a complete disclosure, which I suppose you carry out now?

Mr. BURTON: That is right.

Mr. SCOTT: I wondered if you use a standard form.

Mr. BURTON: No, we haven't a standard form. We have an application form for details, and so on. What usually happens is that the member knows the interest rate, but he will come in and say, "I want to borrow \$1,000; what will it cost?" There and then it will be worked out for him, and he will be shown that \$65 is added to \$1,000, divided by twelve, and you have the monthly payment.

Mr. SCOTT: It is left to the curiosity of the borrower?

Mr. BURTON: At the moment, yes.

Mr. SCOTT: How can you call that full disclosure?

Mr. BURTON: Only in the sense that, let us say every member knows what the interest rate is. Anyone who asks is immediately informed what the cost is. The only thing lacking is that we don't carry out this "I" formula; although, it is fairly simple, because anyone who is interested knows what the monthly payment is and what he borrows.

Mr. HALLINAN: Another thing, too, Mr. Chairman, is that we have an educational publication that most credit unions give to a new member, where this formula is worked out in similar detail; it is usually given them when they become a member.

When a member applies for a loan—and I have been on a credit committee for years—he says, "How much will it cost?" and we tell him; and on the application form itself it says 1 per cent per month on the unpaid balance, and that covers everything.

Senator HOLLETT: As I understand it, the formula "I" gives the total cost of the credit, and over on the preceding page is cited a convenient form of calculating the interest.

Mr. BURTON: Well, you cannot work out the second formula unless you know the amount of the interest. The only thing we do charge is interest, whereas in some cases, in other organizations it might include insurance, some special charge on a chattel mortgage, and so on.

Mr. SCOTT: On the follow up on default, I notice in your brief your chief security is promissory notes.

Mr. HALLINAN: No. A promissory note is not necessarily security, but a promise to pay. In practice, the average security given is a wage assignment.

Mr. SCOTT: Then in the event of a default, could you tell me what efforts were made to collect the money from the borrower as against making an application to your guarantee fund?

Mr. HALLINAN: Yes. There are usually delinquency letters sent out. We have a set of three. Then in most cases personal contact is made with the member; and as a last resort we file a wage assignment—as a last resort.

Mr. URIE: You mean the wage assignment is not filed immediately the individual payment is not made?

Mr. HALLINAN: That is right.

Mr. SCOTT: So in the event the employee left the employer, what would you do?

Mr. HALLINAN: Well, the wage assignment is good wherever he goes. We also have our collection services.

Mr. SCOTT: What I am trying to get out is that I wanted to contrast, if I could, the "hound them to death" philosophy of most finance companies with the method of follow up you use. Do you rely primarily on guarantee fund in event of default?

Mr. HALLINAN: I would not say primarily; but I certainly think our collection procedure is infinitely soft compared to what I understand other financial agencies use.

Co-Chairman Mr. GREENE: Do you say other financial agencies file a wage assignment before the other methods are used?

Mr. HALLINAN: Oh, yes, they do.

Co-Chairman Mr. GREENE: Who takes assignments?

Mr. HALLINAN: Finance companies.

Co-Chairman Senator CROLL: Normally?

Mr. HALLINAN: Oh, yes. That is one reason the amendments to the Wages Act in Ontario did not receive the royal assent, because of the opposition put forward by finance companies.

Co-Chairman Mr. GREENE: Do you say banks take assignments away?

Mr. HALLINAN: Yes.

Co-Chairman Mr. GREENE: Commonly?

Mr. HALLINAN: I wouldn't say commonly, but it is quite usual. It was the Canadian Bankers Association and another association which bitterly opposed the amendment to the Wages Act.

Co-Chairman Mr. GREENE: Which amendment is this?

Mr. HALLINAN: The last one that received three readings but—

Co-Chairman Mr. GREENE: What was the purport?

Mr. HALLINAN: It was putting a little teeth into the thing.

Mr. URIE: Into what, with regard to wage assignments?

Mr. HALLINAN: Yes.

Mr. URIE: In other words, the person lending is not able to take a wage assignment from the borrower?

Mr. HALLINAN: In other words, instead of assigning 30 per cent of your wages, it was reduced to 18 per cent, and when a wage assignment was given as security, it had to be filed immediately with employer and was only good for the present employer; and it was the finance companies who raised the fuss about that.

Co-Chairman Senator CROLL: And the act has not received the royal assent?

Mr. HALLINAN: It has not received the royal assent.

Mr. SCOTT: In addition to the promise to pay, and a promissory note, do they generally take other forms of collateral?

Mr. HALLINAN: Yes. Supposing a man wanted to borrow \$1,000 to buy an automobile, they would take a chattel mortgage on the car.

Mr. SCOTT: Are there any figures available dealing with the way in which defaults are recovered, that is, anything available to show how much of the defaults would have been recovered from the individual borrowers as against how much would be recovered from the guaranteed funds?

Mr. HALLINAN: Again, I am afraid our statistics are not available on that question.

Mr. BURTON: I think we could say that those were only a small proportion.

Co-Chairman Senator CROLL: What purposes in the main are given, what is your reason for the loans?

Mr. HALLINAN: You will find it in No. 4 right opposite the very last page of the brief, Mr. Chairman.

Mr. URIE: I think it might be of interest to proceed from that question of interest to the calculation of rates. You know, Mr. Burton, and Mr. Hallinan, that the finance companies, both sales and consumer finance, have always objected, as I understand it, to the full disclosure of rates, and that one of the bases was that they were difficult to calculate. There were different methods of calculation. What are your observations with respect to that allegation?

Mr. BURTON: Well, Mr. Urie, frankly we think they are just hedging. Leaving aside the finance companies for a moment, take the banks, is there any reason why the chartered banks should not disclose in their public advertising on their insured personal loans that they are not charging 6 per cent, as is probably in the public's mind because of the Bank Act stating their limit shall be 6 per cent per annum, but that they are charging, shall we say, 11.3 per cent?

Mr. SCOTT: How do they bump it up that high?

Mr. BURTON: The Canadian Bank of Commerce were the pioneers in finding a way around this 6 per cent. I do not know how they justified it. They received legal opinion, and maybe Mr. Urie knows this better than I do, but I understand the legal opinion was that anything over 6 per cent could be explained away as "other than interest".

Co-Chairman Senator CROLL: As a matter of fact, they not only obtained a legal opinion, but opinion from the Superintendent of Banks and from the Justice Department. What they are doing was considered quite legal. What you say is quite true, of course—it is the costs added on to make up the difference. Forgetting banks for a moment—

Mr. BURTON: This formula on page 8, I cannot see any reason why small loan companies cannot use a formula like this. They know the number of payments in a one-year period.

Mr. URIE: The only thing that bothers me about that is, which comes first, the chicken or the egg—the interest rate or the amount of money you are going to repay?

Mr. BURTON: They know when they give you the loan how much you are going to repay them above the principal. Therefore, they know the total cost of the credit, whatever they may call it.

Mr. URIE: Is this a formula, that is, in fact, used by consumer loan companies, to your knowledge?

Mr. BURTON: No, I do not know. It is a formula we use.

Mr. URIE: Where did you acquire it?

Mr. BURTON: I do not know.

Co-Chairman Senator CROLL: I think the Coronation Credit Corporation, according to the report, are using it in Canada at the present time. I think that is what is indicated in their report. Perhaps you could find the reference in the report.

Mr. URIE: Well, in any event, you are quite right.

Co-Chairman Senator CROLL: Well, let us be right.

Mr. URIE: It is in the royal commission report.

Co-Chairman Senator CROLL: At page 384, I think.

Mr. URIE: On page 383. That is very good, Mr. Chairman. The royal commission report states this:

Different methods of calculation yield slightly different results, but there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so.

They make reference to the annular report, 1963, of Coronation Credit Corporation Limited which apparently does use this formula.

They go on to state:

comparability is more important than the precise level.

Whether this is a very precise formula is not known, but this is a formula.

Mr. BURTON: Even in a case where you apply for \$1,000 and only get \$900 you could still use your formula because you use \$900 as the principal and the difference between the \$900 and \$1,000 is, at least in part, the cost. It could be used by Eaton's and Simpson's in their credit accounts.

Mr. URIE: What about that particular situation—the revolving credit plans of department stores—how would they apply that formula in this instance?

Mr. BURTON: I think the easiest way would be to take the initial amount of borrowing and work out, first of all, without any additional borrowing, because this revolving credit involves continual borrowing.

Mr. URIE: It would be a contractual obligation and the rate to be charged would be "X" per cent no matter what the principal is.

Mr. BURTON: The rate does not vary on revolving credit.

Mr. URIE: It is not supposed to, but it could vary. The other objection by some of these companies is that on odd figures it is difficult to calculate. Do you think rate books could be provided, as the royal commission suggests, so the clerk in an office could calculate it very simply?

Mr. BURTON: Credit unions use rate books quite a bit in the calculation of interest, and presumably finance companies do too.

Co-Chairman Senator CROLL: Where do they get them?

Mr. HALLINAN: From the Cuna Mutual Insurance Society.

Co-Chairman Senator CROLL: If you did not belong, where could you buy them?

Mr. HALLINAN: I think you could get them there too.

Mr. URIE: Mr. L'Heureux says banks will supply them.

Mr. ORLIKOW: Banks supply anybody but the borrower.

Co-Chairman Mr. GREENE: I wonder if you could tell us what, if any, federal statutes govern your operation, because you only refer to the Ontario act. Are there any federal statutes which govern your operation?

Mr. HALLINAN: At the moment there is no federal credit union legislation in existence. Judging from the report of the Royal Commission on Banking and Finance, I think they are prepared to suggest that it be left in the hands of the provinces.

Co-Chairman Mr. GREENE: You are not subject to the Bank Act or any other federal act?

Mr. URIE: What about the Co-Operative Credit Associations Act, passed in 1953?

Mr. HALLINAN: That only affects provincial co-operative credit societies, but does not affect the league.

Mr. BURTON: We operate under the act the same as the credit unions.

Mr. URIE: Has the validity of the provincial enactments, under which come the limitations to interest, to your knowledge, ever been challenged?

Mr. HALLINAN: Not to my knowledge, but a few years ago legal opinion was sought, and it was suggested that the Credit Unions Act was valid.

Mr. URIE: When you say an opinion was sought, by whom was that sought?

Mr. HALLINAN: By the credit unions.

Co-Chairman Mr. GREENE: If I had \$1,000 deposit and I wanted to borrow \$2,000, could I draw out my \$1,000 first and just borrow \$1,000? Is that permissible under your rules?

Mr. HALLINAN: Yes.

Co-Chairman Mr. GREENE: I do not have any deposit to borrow?

Mr. HALLINAN: As long as you are a member, that is right.

Co-Chairman Senator CROLL: Would you ask the co-chairman to sign his note or get somebody else to sign his note?

Mr. HALLINAN: That would be one way, or we could take a chattel mortgage—

Mr. URIE: You do ask for guarantees?

Mr. HALLINAN: Yes, over \$300.

Mr. BURTON: We must have security in some form over \$200.

Co-Chairman Senator CROLL: What do you start with? What is the first security you look for?

Mr. BURTON: Wage assignment and the shares themselves.

Co-Chairman Senator CROLL: If you obtain a wage assignment is that the end of it?

Mr. BURTON: Usually. There may be a co-signer.

Co-Chairman Senator CROLL: Even if you have a wage assignment and you ask if he can obtain a co-signer, and if he says "no," what do you do?

Mr. BURTON: It is up to the individual credit union. Some will say there must be a co-signer for a loan above \$1,500, and below that it does not matter.

Co-Chairman Senator CROLL: Could you conceivably have, at one time, for, say, a very large loan, a wage assignment, a co-signer and a mortgage on a house or car? Could you have the three of them at once?

Mr. HALLINAN: It is conceivable.

Mr. IRVINE: What is your protection for loans under \$200?

Mr. HALLINAN: Personal character.

Mr. McCUTCHEON: I would like to come back to the insurance aspect for a moment, if I might. CUNA, if I understood this correctly, insures savings accounts and certificates as well as loans.

Mr. McCUTCHEON: Now would you explain this to me; let us suppose I have \$1,000 deposit in the credit union and I should die, does this mean that this insurance is the same as the banks in the United States which are insured for the safety of this thousand dollars, or does it mean that I get a thousand dollars plus my deposit—or my estate does? Will you explain that, please?

Mr. HALLINAN: Yes, take the case of a person who has \$1,000 in savings, and a loan of \$1,500, and he goes to Heaven. The insurance company pays the loan off, and his estate gets the \$1,000 savings plus \$1,000 insurance.

Mr. McCUTCHEON: This was to be my supplement question, but you have answered both. In other words this insurance on the savings is just duplicating what I have deposited with you.

Mr. HALLINAN: Yes, under the conditions we mentioned. The savings put in up to age 55 are insured 100 per cent.

Mr. McCUTCHEON: So you are in the insurance business too?

Mr. HALLINAN: Yes.

Co-Chairman Mr. GREENE: If I have \$1,000 savings, and I want to buy \$10,000 in insurance policies, can I do that?

Mr. HALLINAN: Yes, but not from the credit union, but from the credit union insurance society. But of course to get this you would have to be a member of the credit union.

Mr. McCUTCHEON: Who owns the credit union insurance company?

Mr. HALLINAN: It is a mutual society. It is the policyholders that own it.

Co-Chairman Mr. GREENE: What percentage of the mutual is Canadian?

Mr. HALLINAN: I don't know that, but I know in Ontario we have more policyholders than any other province or state. In fact in Ontario if we were really to organize we could elect the whole board of directors of the credit union insurance society.

Mr. SCOTT: What is the total credit union membership in Ontario?

Mr. HALLINAN: Five hundred and fifty thousand.

Mr. SCOTT: And what is the potential?

Mr. HALLINAN: What is the population of the province—about six million.

Mr. SCOTT: How do credit unions get started; do you have organizers going around organizing these?

Mr. HALLINAN: I have four men on my staff at the moment who do nothing else but organize credit unions.

Mr. SCOTT: Do you hope to cut out the banking system altogether?

Mr. HALLINAN: No, the banking system is important.

Senator IRVINE: I come from a western province, and in the last 25 years there have been about 400 branches of banks that have closed down in little towns. I am wondering about the average small farmer who used to deposit in these banks. What percentage of those now put their savings in credit unions—are they taking the place of banks?

Mr. HALLINAN: I would think in the rural area—I am not too familiar with western Canada, although some of my colleagues work out there. I would not be able to give anything approximating to a statistic. But in one rural area even in Ontario where a community credit union started up the farmers started to deal with it. At the time they had a chartered bank which opened three days a week, and I understand in that one area recently it closed up.

Mr. SCOTT: You mentioned you thought the credit unions would like to have the provisions under N.H.A. extended to them.

Mr. HALLINAN: That was one of the recommendations of the Porter Commission.

Mr. SCOTT: Where would you get the funds from?

Mr. HALLINAN: I may say in this regard that I am looking to the future. Many of our unions are getting to the stage where their savings are becoming much more than their personal loan requirements. And it would be a nice thing if in the future those unions were in a position to take advantage of the N.H.A.

Mr. SCOTT: Last week when we were discussing this question it appeared that the public appetite for this type of credit was almost insatiable. Do you find your resources are adequate for this consumer credit, or do you find that your borrowers have outside applications for credit also?

Mr. BURTON: In some cases, yes, and the majority know of the restriction on borrowings to credit union people. You do get a number of people borrowing from finance companies as well.

Mr. SCOTT: Is it fair to say that the credit union principle meets the credit needs of its members?

Mr. BURTON: Yes, because if they lend all their money out they can borrow 50 per cent of their assets from league central and other sources.

Mr. HALLINAN: Another point that should be remembered is that we very often do a member a favour by turning down a loan. We have developed a program called family financial counselling whereby a person who comes in may sit down with the family financial counsellor and have him straighten out his finances.

Mr. SCOTT: In that event you would lend him the money to straighten out his bills?

Mr. HALLINAN: Yes.

Mr. SCOTT: And in that event do you exercise any supervision over his future conduct?

Mr. HALLINAN: We cannot do it legally, but I can mention a case of the old CNR credit union in Stratford where a man who was in a supervisory capacity and who could have joined that credit union and did not want to, came one Friday evening to the treasurer and said "Could I get a \$50 loan?" The treasurer said "Yes, but you don't need that \$50—you are just paying off somebody to get him off your back." The treasurer said he would like to come down and to discuss the matter with this man and his wife. He did so and he said "Sit down and tell me all your debts." He owed a considerable amount of money. So the treasurer said "I want you and your wife to tell me how much it is going to take to carry on your house each month, and I shall consolidate your debts, on the condition that you endorse your pay cheque to the credit union, and I will give you the amount of money each month which you and your wife agree that you need."

The two of them agreed on this. The treasurer went to the doctor, and the doctor had had a bill for \$50, and he said "I had written off that \$50, and marked it down to \$35." Today that man has paid everything off. When the debt was paid off the treasurer of the credit union went to him and said "You don't have to endorse your pay cheque over now," and the man said he still wanted to do it and asked to have it applied to his savings, because he said the last 18 months were the happiest he and his wife had had since they got married. Today they have \$5,000 saved. This is just a human interest story, but it explains what I mean.

Mr. SCOTT: Are there any restrictions with regard to advertising?

Mr. HALLINAN: There is this problem—every time a good story comes out about the credit union the phone just rings off the wall with people wanting to know how to join. And unless there is one in the place where they are employed, or in connection with their church or something of that nature, it can be a problem.

Mr. SCOTT: Do you think it can be spread beyond the limitations you have given us?

Mr. HALLINAN: Yes. We have been trying to persuade the provincial government to permit us to develop more and more community unions. In your own riding, Mr. Scott, where I live, in Scarborough, they have a potential of about 250,000 members. But the membership is not anything like that. Even those that are there were incorporated away back and they have to be developed.

Co-Chairman Mr. GREENE: What do you mean that you are trying to persuade the provincial government? Surely you can go and develop these in any community?

Mr. URIE: The act precludes their going beyond a certain level.

Mr. HALLINAN: They said they would not grant a charter to any community having more than 6,000. I can see their reason for that, but I still maintain there is a tremendous potential for credit unions in our province.

Co-Chairman Mr. GREENE: Do you feel that you are picking up the cream of the consumer borrowing field—that is, you are lending to those who are steadily employed—and leaving the other concerns to take on the greater risks?

Mr. HALLINAN: No, I would not say that, Mr. Chairman. I think the credit union membership comprises a very fair cross section of the community.

Co-Chairman Mr. GREENE: But you told us that most of them are industrially employed—that is, in Ontario, at least.

Mr. HALLINAN: That is correct.

Mr. SCOTT: Before you leave that one particular point—and I know that this does not come strictly within our terms of reference—I understand that there is at present a restriction in that you cannot obtain a charter for communities of over 6,000 population.

Mr. HALLINAN: The arbitrary figure of 6,000 has been lifted. If an application for a community type of credit union is submitted, and it has the approval of the League, and if we can give reasonable assurance that in our opinion it will be a success, then it will be allowed to go ahead. Just last night the Renfrew community organized a credit union, and that is a community in excess of 6,000. Our representative in Ottawa recognizes the fact that they have a wonderful chance of success, so the Department of Insurance goes along with it.

Mr. SCOTT: Do they invariably act on your recommendation?

Mr. HALLINAN: They do not have to, but they are reasonable people, and we get along well.

Miss JEWETT: Could Mr. Hallinan tell me when the Ontario Credit Co-operative Society first appeared?

Mr. HALLINAN: I think it was chartered in 1950 or 1951.

Mr. SCOTT: Are they going to appear before us?

Co-Chairman Senator CROLL: Who?

Miss JEWETT: The Ontario Credit Co-operative Society.

Mr. URIE: We have not heard from them.

Miss JEWETT: From your point of view what are they offering that you do not?

Mr. HALLINAN: One service they are offering is the secondary chequing program. They have within the past year and a half organized a second mortgage company called Landmark, and quite recently they have organized another savings and loan association which will be engaged, I believe, in first mortgages. I am not too familiar with the details because this is very recent. I have no more than a very casual knowledge of the fact that they are going to incorporate.

Miss JEWETT: But they operate under the same act?

Mr. HALLINAN: No, they do not. They are incorporated under a private act.

Co-Chairman Mr. GREENE: Are they not subject to the Credit Unions Act?

Mr. HALLINAN: No, they are not.

Mr. URIE: Are they subject to the dominion act?

Mr. HALLINAN: Yes, that is the reference that was made.

Mr. BURTON: If I might add, the OCCS also operates current accounts for credit unions; the majority of the credit unions have their current accounts with the chartered banks, although some of them have them with the OCCS. That is another thing which we cannot do. Also, they receive funds from co-operatives and lend money to co-operatives, which is also beyond our power.

Miss JEWETT: They are not strictly competitive with you?

Mr. HALLINAN: They are in the credit union field. You see, by law we can deal only with credit unions which are members of our League, so they are in competition for the surplus funds of credit unions, as we are. They are in competition with us in lending to credit unions.

Mr. URIE: But many of your credit unions actually invest in the OCCS, according to appendix 3a, not substantially, but they do.

Mr. HALLINAN: That is true.

Mr. URIE: In the million dollar class 2.6 per cent invest their assets in the Ontario Co-operative Credit Society.

Mr. HALLINAN: Yes, that is where they are really competitive—in the \$1 million to \$3 million class—but in the overall they only have half of what we have.

Mr. CHRÉTIEN: Are they in any way connected with the United Co-operatives of Ontario?

Mr. HALLINAN: No.

Co-Chairman Senator CROLL: On July 14 we will have the Credit Union National Association before us. This is the provincial association, and on July 14 we will hear the international association.

Mr. ORLIKOW: At some point we should bring the co-operative organization in.

Co-Chairman Senator CROLL: Yes, we have a note of it.

Mr. ORLIKOW: In Manitoba there has been a great deal of friction between them in the last couple of years.

Mr. SCOTT: How does your lending policy on personal loans contrast with that of the chartered banks? Last week we were told that their rates vary from $9\frac{1}{4}$ per cent to $11\frac{1}{4}$ per cent. Do yours come out at about 9 per cent because of your rebate?

Mr. BURTON: Most of them charge 12 per cent. The average rebate is about $17\frac{1}{2}$ per cent. It is only the big ones that can afford to pay 25 per cent or more. However, the average is between 10 and $10\frac{1}{2}$ per cent, except for the rural communities, which charge only $7\frac{1}{2}$ per cent in the first place.

Mr. SCOTT: Do the banks also supply life insurance?

Mr. HALLINAN: I understand that recently some of them have gone into it, but there is an added charge if you take out a loan protection policy.

Mr. SCOTT: Are your lending policies generally easier or more flexible than those of the chartered banks?

Mr. HALLINAN: I think they would be because we have a very considerable built-in advantage in the fact that a credit union is dealing with its own members. Even if a fellow is a dead-beat he still feels a sort of moral liability towards his loan. He says to himself: "If I fall down on this loan I am affecting my fellow workers or parishioners". For that reason I think we might be a little more liberal in our lending policy.

Co-Chairman Mr. GREENE: How long have your rates been one per cent per month?

Mr. HALLINAN: Ever since the act came into effect.

Mr. URIE: That is the same for small loans and large loans, notwithstanding the fact that the heaviest rate of charges is imposed on the initial sum.

Mr. HALLINAN: Yes, the rate is the same, except in respect of first mortgage loans.

Co-Chairman Mr. GREENE: Have any credit unions gone bankrupt in the history of the movement in Ontario?

Mr. HALLINAN: I would not say that they have gone completely bankrupt. That brings in our stabilization fund, the purpose of which is to prevent that type of thing. In Ontario we have set up a very successful stabilization fund, in which a credit union deposits with the League one-tenth of one per cent of its assets. That fund is to take care of any credit union that is in trouble. For example, a company may suddenly close up, and in that case the stabilization fund takes over the credit union, and pays off 100 cents on the dollar. The League collects the money.

There was a very sad case a few years ago up in Kirkland Lake. I think this is general knowledge. It was a *caisse populaire*, but it is the same thing. It did not belong to our League, but to the federation. The cause was just gross mismanagement—

Co-Chairman Senator CROLL: It was more than that. Was it not a case of somebody lifting money?

Mr. HALLINAN: Yes, that is right.

Mr. URIE: Getting back to appendix 3b, Mr. Hallinan, it would be interesting for the members of the committee to know, I think, what comes out of the net income after expenses have been deducted? What happens to that income?

Mr. HALLINAN: Twenty per cent of that net income, as we have suggested, goes to the guarantee fund, and then it is usually divided as between dividend and rebate on interest.

Mr. URIE: What about the other funds you mention in your brief—the educational fund, the contingency fund and the reserve fund? What are those funds?

Mr. HALLINAN: By law we have to set aside 5 per cent of net income into an education fund.

Mr. URIE: What is that?

Mr. HALLINAN: It is basically advertising.

Mr. URIE: So you would have advertising expenses under the heading of "Expenses," but in this instance it comes under a different heading?

Mr. HALLINAN: That is right.

Mr. URIE: What about your undivided earnings? What happens to them, and how much is left in?

Mr. HALLINAN: Usually there is very little left at the end of the year. You cannot always work out your dividends and rebates right to the odd cent, so the balance goes into an undivided earnings account, which is a cushion. Supposing, for example, a credit union had regularly paid a dividend of $4\frac{1}{2}$ per cent for five years, and in each year it set aside a little into this undivided earnings account, and then it comes along to the sixth year and it is a little shy of paying $4\frac{1}{2}$ per cent, well, then, it can dip into the undivided earnings account to make up the difference.

Mr. URIE: But as a general rule, you say, there is very little left in?

Mr. HALLINAN: That is correct.

Mr. URIE: Can you give us that as a percentage?

Mr. BURTON: At appendix 2, I should mention that under liabilities, the undivided earnings are shown as \$15 million, but that is a little misleading, because that is before the distribution. As a percentage, it is very difficult to say. Some credit unions leave nothing in undivided earnings, some transfer to other reserves and so leave nothing. The former ones pay it all out. It certainly would not exceed 1 per cent on an average.

Mr. HALLINAN: At appendix 3a, under liabilities, you have undivided earnings amounting on the average to 5.2 per cent.

Mr. BURTON: Again that is before distribution.

Mr. URIE: Before distribution of interest and dividends.

Mr. BURTON: I should say it is less than 1 per cent, because credit unions tend to put reserves into a contingency fund or building reserve or something specific like that.

Mr. URIE: According to appendix 3b the net income is 62.4 per cent, which is the undivided earnings before payment of interest, and the dividend is down to 5.2 per cent.

Mr. BURTON: The 62.4 per cent is the percentage of gross income, whereas the 5 per cent is the percentage of assets.

Mr. URIE: I see. You have salaries and honoraria showing an average of 27.9 per cent. Have you any idea how that compares with other financial institutions?

Mr. BURTON: No, I do not think we have. We have assumed that it would be favourably compared, because banks seem to have more employees than credit unions of a similar size. We have no statistics.

Co-Chairman Mr. GREENE: These statistics are of the individual units, I take it. Are they?

Mr. BURTON: Yes.

Co-Chairman Mr. GREENE: Is there some statistics here that show your income, that of the league itself, and your expenses and so on?

Mr. HALLINAN: No, not in this brief.

Mr. BURTON: I guess we did not feel these were particularly relevant.

Co-Chairman Mr. GREENE: Your annual income is one-tenth of one per cent?

Mr. BURTON: No, that is the stabilization fund.

Co-Chairman Mr. GREENE: One dollar per member. That is where all the money comes from for you at headquarters?

Mr. BURTON: Yes.

Co-Chairman Mr. GREENE: Why are you so anxious to expand?

Mr. BURTON: We feel that credit unions are a real advantage to the community and we would like to share a good thing.

Co-Chairman Mr. GREENE: It is a religion.

Mr. BURTON: No, it is something good.

Co-Chairman Senator CROLL: Mr. McCutcheon asked a question earlier, it startled me a little when he got the answer. If I recall it correctly, he said, "I have a loan of \$1,500, I have a deposit of \$1,000." The man dies, the witness said he goes to heaven—

Mr. SCOTT: That is supposition.

Co-Chairman Senator CROLL: He was quite definite about it.

Mr. URIE: Well, he was a member of a credit union.

Co-Chairman Senator CROLL: The \$1,500 is insured. It is paid off. The \$1,000 is paid to the heirs, and another \$1,000 for his insurance. That is a bonanza. I do not know if I got the point correctly.

Mr. ORLIKOW: It pays to die while you owe them the money.

The Co-Chairman Senator CROLL: The banks don't do it.

Mr. McCUTCHEON: The banks do the same thing. You can go to an insurance company.

Co-Chairman Mr. GREENE: The expansion does not help any of your present membership.

Mr. BURTON: No, they already have the advantages there.

Co-Chairman Senator CROLL: I do not normally see the weekly or rural papers but I see the average newspaper in the community. I do not recall an advertisement in any of them, or on television or radio, asking me to join a credit union. Where do you advertise?

Mr. HALLINAN: We have advertised from time to time. A few years back we had advertising on the Lorne Greene program.

Co-Chairman Senator CROLL: That would be 10 years ago. Let us get down to the present. Last year, where did you advertise? Was it through booklets?

Mr. HALLINAN: That is the chief method.

Mr. URIE: It is done through industrial plants or religious institutions?

Mr. ORLIKOW: You mentioned earlier about getting people to join community groups, that would make widespread advertising to the general public pretty useless. If there was not a credit union in the plant or in their ethnic group, it would be very difficult for them to join.

Mr. HALLINAN: Our advertising chiefly is directed to those credit unions presently in existence that have not reached the potential. Of course there is a certain amount of advertising done in the community. For example, the Rochdale and Woodstock people advertise in the *Woodstock Central Review*, because it is situated in the community and the people are living there. It would not pay to take a full page advertisement in the *Toronto Telegram* or *Toronto Star* as the only result would be to have hundreds of people asking to join and they would be told that there was no credit union available for them.

Co-Chairman Mr. GREENE: I understand you are not subject to the Income Tax Act.

Mr. HALLINAN: Any credit union whose income is derived primarily from loans to members is not liable for corporation tax.

Co-Chairman Mr. GREENE: The Tax Foundation recent report criticized this facet of the corporate Income Tax Act. Would you like to comment on that?

Mr. HALLINAN: Yes, I think the answer is contained in the royal commission report which said that since there was no apparent benefit received from this, it was not responsible for growth and development. We appeared before them.

Mr. URIE: They also said that all you had to do if a question were raised as to whether or not the earnings were properly taxable, was to change the terminology from dividend to interest, and then it is an expense which can be deducted?

Mr. HALLINAN: That is correct.

Mr. URIE: In respect of that royal commission report there were three broad criticisms of your organization, first, that there was low liquidity; secondly, the mutual aid funds were, they felt, a little weak; and thirdly, lack of supervision. They made certain suggestions. Have you any comments?

Mr. HALLINAN: In respect of the last two—I am speaking only for Ontario—our stabilization fund, or what they call the mutual aid fund, had not developed at the time we appeared before them. We feel that has happened now. We feel also in Ontario that the supervision is adequately taken care of through Mr. Burton's department.

Mr. URIE: Even when it is only once in every two years.

Mr. HALLINAN: Yes, provided the Department of Insurance can follow up. Of course, our ideal is to get around to it every year.

Mr. BURTON: We should add that every credit union has a supervisory committee composed of three members who are responsible for monthly checking. We do a considerable amount of work in training the supervisory committees when they are not already qualified. Also, the majority of the large credit unions, over half a million dollars, voluntarily have external auditors at least once a year and some more often. Therefore it is not as bad as it may seem when it is said that they are examined only once in two years.

Mr. URIE: What about the more inherent difficulty? It seems to me it is a potential danger, that is, the question of low liquidity. You could have about 4 per cent real liquid assets at any given time. If certain economic factors came in, you might find yourselves in difficulties, even with the mutual aid, the stabilization fund and the guarantee fund and so on.

Mr. BURTON: If you look at the statistics in appendix 3a, you will see the assets are, cash on hand and in the bank, 4.6 per cent, that is entirely liquid; investments under OCUL, that is the league, 3 per cent, over all, that is entirely liquid; then there is the OCCS, 1.5 per cent, which is partially liquid. Their shares are not liquid but their deposits are. Then, other investments, part of that would be liquid. So between those you have 8 per cent or 9 per cent.

Mr. URIE: Is that higher than it was at the time the royal commission considered it?

Mr. BURTON: It may be a little. They may have been working on previous statistics. It may be that what they are getting at primarily is that these are over-all figures and some credit unions have virtually no liquidity while others have a considerable amount. The point was the extremely high liquidity of the caisses populaires. They took the caisses populaires as examples in quite a few things. Another thing they criticized was not so much the credit unions lack of liquidity but that of the centrals, because they said the credit unions are relying on the centrals. They deposit the funds, and they borrow them from there, and yet the liquidity of central is low.

Co-Chairman Senator CROLL: When you say 8 or 9 per cent, how do you compare with the banks?

Mr. BURTON: I don't know, but the royal commission is only suggesting 8 per cent liquidity.

Co-Chairman Senator CROLL: At the present it is 12 per cent, is it not?

Mr. BURTON: I don't know what it is.

Mr. SCOTT: What is the liquidity rate of the central?

Mr. HALLINAN: It could go as high as 25 per cent for a period of years and drop as low as 4 or 5 per cent.

Mr. BURTON: Something rather unique about the central is that the money goes round and round; there is very little money operation outside of it. In other words, only occasionally does the league have to outside, or the bank—may be once a week. Normally, it is just the credit union money circulating within the movement. For instance, we consider that the credit union's liquidity depends partly on that borrowing capacity; and almost always they can borrow from the league or the OCCS or from the bank. We are opposed to their having to keep too much money within the movement.

The royal commission was afraid of how the credit union movement could provide for what they called a change in the weather. If there was a depression, the league would have to say to the credit unions that they would have to cut down on their borrowing, and they in turn would have to go to the members and tell them to wait until the present members repaid their amounts. When you put money in a credit union you do so with the understanding of lending it to the other fellow members, and if a difficult situation arose, one colleague would have to wait to withdraw until the other had paid.

Mr. McCUTCHEON: If you get into economic difficulties it is not just the credit unions that are going to be in trouble, but everybody else, and because of your lower costs, and the fact that you have less staff than say commercial organizations, and you are not too concerned about making a profit, you might be able to reduce the difficulties better than commercial organizations.

Mr. BURTON: I think it is highly likely.

Co-Chairman Mr. GREENE: You are not so much concerned about the funds being under different control of the various people, but you are concerned if there is a change in the climate?

Mr. BURTON: Yes. Possibly a strike takes place; but the strange thing is that the credit union comes out stronger at the end of the strike than at the beginning.

Mr. SCOTT: Are you satisfied that the nature of your auditing is sufficient to protect your membership?

Mr. BURTON: When it is taken into conjunction with government and legal inspections, and so on, and 100 per cent bond coverage, it is almost impossible for credit union members to lose money.

Mr. SCOTT: Is there 100 per cent bond coverage now?

Mr. BURTON: About 80 per cent of credit unions now have 100 per cent coverage.

Co-Chairman Senator CROLL: 100 per cent what?

Mr. BURTON: A \$1 million credit union is bonded up to \$1 million.

Co-Chairman Mr. GREENE: Are there any further questions you wish to ask? If not, thank you very much Mr. Hallinan and Mr. Burton, for your presentation.

I understand that next week we are to meet in camera.

The committee adjourned.

APPENDIX "B"

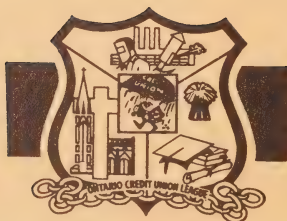
A Brief

Submitted by

Ontario Credit Union League Limited

to

Joint Committee of the Senate
and House of Commons on
Consumer Credit



Submitted on June 23, 1964

TO: Honourable Senator Croll }
and Mr. Greene, M.P. } Joint Chairmen
and Members of the Joint Committee of the Senate and
House of Commons on Consumer Credit

Gentlemen:

On behalf of the Ontario Credit Union League Limited, we are pleased to submit herewith our Brief.

The Ontario Credit Union League Limited is happy to volunteer the information contained in this Brief and its appendices, and is most willing to assist the Committee in any way possible.

The representatives of the Ontario Credit Union League Limited delegated to appear at the hearing are:

Mr. John M. Hallinan, B.A., General Manager,
40 Hollydene Road, Scarborough, Ontario

Mr. John H. F. Burton, Assistant Supervisor of Examinations,
404 Marybay Crescent, Richmond Hill, Ontario

The Ontario Credit Union League Limited,
Credit Union Drive,
Toronto 16, Ontario

SUMMARY OF BRIEF

Submitted By The

ONTARIO CREDIT UNION LEAGUE LIMITED

To The

JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

1. This Brief is submitted by the Ontario Credit Union League Limited as a voluntary association of its 1,425 member Credit Unions in Ontario. The League exists for the protection and promotion of the Credit Union Movement in this province, and is financed by its member Credit Unions.

2. A Credit Union's functions are mainly to encourage thrift among its members, and to provide low-cost loans to its members. It is owned and operated solely by its members for the benefit only of its members.

Personal and Mortgage Loans together represent more than 85% of total Credit Union Assets; consequently the bulk of a Credit Union's income is from interest on such loans.

By Ontario law, a Credit Union may charge no more than 1 per cent per month on the unpaid balance of any loan, such 1 per cent to include interest together with all charges and penalties.

The true interest rate and the dollar cost of loans is well publicized by Credit Unions, and there are no hidden charges or penalties imposed.

The majority of Credit Unions charge the maximum 1% per month, though many of these make a rebate of interest at the year end reckoned as a percentage of interest paid.

The Credit Union maximum rate of 1 per cent per month on the unpaid balance equals 12% simple interest per annum. Generally, insured personal loans by the chartered banks bear a simple interest rate of just over 11% per annum, despite the 6% maximum permitted by the Bank Act. For a loan repaid in 12 months, the interest on a bank personal loan works out at 6% on the principal, compared with 6½% for a Credit Union charging the maximum rate.

A number of Credit Unions charge less than 1 per cent a month, rather than pay rebates at the year end. Rural groups usually charge between ½% to ¾% per month.

A convenient formula for calculating the interest on a Credit Union loan at 1% per month on the unpaid balance (based on a 360 day year) is as follows:

$$\frac{(\text{Number of monthly instalments} + 1)}{200} \times \text{Principal amount}$$

3. Credit Union loans, almost all of which are life-insured, are made for a wide variety of purposes, and must all be approved by the Credit Committee of the individual Credit Union.

4. Promissory Notes are always taken on Credit Union loans, whilst security taken may include chattel mortgage, assignment of wages, shares held by the member, and endorsement by a co-signer.

5. Rules for repayment of loans are flexible, and refinancing to extend terms in cases of necessity is permitted (without extra charge). Delinquent borrowers are treated very fairly, and compassionate consideration is given in cases of need.

6. First mortgage loans up to 66⅔% of appraised value, and generally totalling not more than 25% of a Credit Union's Assets, are usually made only by large Credit Unions with surplus funds.

7. Full disclosure is made by Credit Unions of the cost of their loans to members, both in dollars and percentage-wise. A simple formula for calculating the simple interest annual rates is as follows:

$$R = \frac{2 \times m \times I}{P(n+1)}$$

where R=the annual *rate* of interest.

m=the number of *payments* in a one-year period.

I=the total cost of the credit.

P=the principal borrowed (or merchandise cost).

n=the number of payments actually scheduled.

We believe that similar disclosure of dollar cost and percentage charge can be made by other lenders, and we strongly recommend that all consumer credit lenders should be required to state:

(i) the full dollar cost of credit (including *all* charges).

(ii) the percentage rate of *all* charges expressed in a uniform way. in all contracts and all advertising and publicity.

Such full disclosure is supported by the Royal Commission on Banking and Finance in their recently published Report.

8. We support the further recommendations of the Royal Commission on Banking and Finance:

(a) that the present 66⅔% loan to value ratio on first mortgages be raised to a maximum of 75%.

- (b) that all personal cash lending be subject to a maximum charge on all amounts up to \$5,000, that the present 2% per month maximum on the first \$300 borrowed be retained, and that 1% per month maximum apply to all higher amounts.

P 1

Introduction

This submission is made by the Ontario Credit Union League Limited both on its own behalf, and on behalf of the 1,425 credit unions in Ontario which are members of this League.

P 2

The Ontario Credit Union League Limited was incorporated in 1942 under provincial charter, being a voluntary association of provincial credit unions, and acting as the co-ordinating body for them and for the 32 local area associations known as Chapters.

P 3

The objects and purposes of the League are clearly set out in the Credit Unions Act, 1961; Section 53(1) reads:

Ten or more credit unions may be incorporated as a league for the object and purpose of,

- (a) protecting and advancing the credit unions that are members of the league;
- (b) encouraging and assisting educational and advisory work relating to credit unions;
- (c) arranging for group bonding of credit union employees and ensuring repayment of loans made by credit unions to their members;
- (d) receiving moneys from its members either as payment on shares or as deposits; and
- (e) making loans to credit unions that are members of the league.

Section 53(7) reads:

P 4

Any competent person authorized by a league incorporated under this section may examine into the affairs of any credit union that is a member of the league and for such purpose he shall be given access to all books, records and other documents of the credit union and he may make whatever inquiries are necessary to ascertain its true condition and its ability to provide for the payment of its liabilities as they become due, and the officers and employees of the credit union shall facilitate him in his examination and inquiry.

P 5

Generally, the League's functions include organization, education, publicity, and examination of credit unions (co-operating with the provincial Attorney-General's Department (Registration and Examination Branch) in the latter field). The League also works closely with the Provincial Government in connection with changes in credit union legislation.

P 6

The Administration Department of the League is financed by dues of \$1.00 per year paid by members of member credit unions. In addition the League Central Department exists to receive surplus funds from member credit unions by way of shares and deposits, and to loan money to credit unions needing extra funds.

P 7

The League is a member of the Credit Union National Association (CUNA), and pays to CUNA nine cents of every dollar of the above mentioned dues.

P 8

The League holds an Annual Meeting to which every member credit union is entitled to send one delegate and one alternate delegate. At the Annual Meeting League Directors are elected, policies made, and the general business of the League discussed and resolved.

P 9

The League Board of Directors consists of eighteen men from all parts of the Province. A permanent staff of some 66 employees perform the day-to-day work of the organization. The staff is headed by a General Manager who is directly responsible to the Board of Directors.

P 10

Loans

Appendices 2 and 3a of the Submission indicate the extent to which Ontario credit unions are involved in loans to their members. Personal and Mortgage Loans together represent more than 85% of total Credit Union Assets (see Appendix 3a).

P 11

The difference between personal and mortgage loans can best be explained by reference to the Standard By-Laws, Article V, 3(c) which reads:

No loan shall be for more than \$3,000 in excess of the member's savings unless secured by a first mortgage of real estate, and in no case shall the total amount on loan to any member at any time exceed \$10,000.

P 12

The By-Laws of some larger credit unions permit personal loans up to \$5,000 and in a few cases \$10,000 and mortgage loans up to \$20,000 or \$30,000.

P 13

The personal loan limit is modified for small credit unions by Article V, 3(b) of the By-Laws which reads:

The total amount on loan to any member at any time shall not exceed \$1,000 in excess of the members savings, or 5% of the Credit Union's capital, deposits and surplus in excess of the member's savings, whichever is the greater.

P 14

Interest Rates

The interest rate that credit unions may charge is limited by Section 29(2) of the Credit Unions Act, Revised Statutes of Ontario, 1960, which reads:

Interest together with all charges and penalties shall not exceed 1 per cent per month on the unpaid balance of any loan.

This regulation is literally followed; a credit union cannot even charge a member the cost of registering a chattel mortgage, if the interest rate on the loan is the maximum 1 per cent. Costs of collection of delinquent loans cannot be charged to the member if he is charged maximum interest. The setting of the interest rate is the responsibility of the Board of Directors (Article V, 4 of the By-Laws), and the true interest rate is well publicized to the members.

P 15

There is no hidden charges or penalties in the credit union loan business. The member may know the full cost of his loan when he applies for it. There is no additional charge if a loan is paid up before the due date.

P 16

The majority of Ontario credit unions charge (for personal loans) the maximum 1% per month on the unpaid balance for two reasons:

- (i) because of the ease of calculation—one hundredth of the previous month's balance;
- (ii) because at the Annual Meeting of the members, the latter, on the recommendation of the Board of Directors, may declare a rebate of interest paid, out of net earnings, when it is known what the expense of operation has been, and what dividend should be paid on members' shares.

P 17

The average rebate of loan interest in 1962 was in the neighbourhood of 16% of interest paid during the year.

P 18

Perhaps the credit union loan interest rate should be clarified. One per cent per month on the unpaid balance equals 12% simple interest per annum. However, the effective rate on a loan repaid within the year is $6\frac{1}{2}\%$. For example, a loan of \$1,000 repaid in 12 equal monthly instalments, would bear interest of \$65.00 or $6\frac{1}{2}\%$ on the principal; this of course, is equivalent to 1% per month on the money actually in the hands of the borrower. This $6\frac{1}{2}\%$ compares with the so-called "6% bank rate" when applied to personal loans. To put it another way, the credit union's simple interest rate of 12% per annum compares with some chartered banks' personal loan (insured) interest rate of just over 11%. For example, figures taken from a Bank of Nova Scotia publication, indicate repayments of \$88.33 a month for twelve months on a \$1,000 Scotia Plan loan. This provides for payment of \$60 interest (compared with the credit union's \$65, above), which on an annual simple interest rate basis is just over 11%. (For formula for calculating annual rates of interest see paragraph 31). Often, of course, taking the interest rebate into account, the credit union rate is lower than the banks' rates for personal loans.

P 19

Some credit unions have reduced their initial interest charge instead of paying a rebate after the fiscal year-end, e.g. from 1% to $\frac{3}{4}\%$ per month.

P 20

Some credit unions, and particularly rural groups, charge from $\frac{1}{2}\%$ to $\frac{3}{4}\%$ on the monthly balance (with no rebate, of course). Many of the loans involved here would be to farmers and growers, and would not be repaid in regular frequent instalments, but in one or two amounts when the crop is in or the livestock sold.

A convenient formula for calculating the interest on a credit union loan at 1% per month on the unpaid balance (based on a 360 day year) is as follows:

P 21

$$\frac{(\text{Number of monthly instalments} + 1)}{200} \times \text{Principal amount}$$

For example, what interest will be paid on a loan of \$1,000 to be repaid in 24 monthly instalments?

$$\frac{24 + 1}{200} \times \frac{\$1,000}{1} \text{ equals } \$125$$

If the borrower wishes to repay the loan in equal instalments (including interest) all that needs to be done is to add the \$125 to the \$1,000, making \$1,125 and divide by 24, giving a monthly repayment amount of \$46.88. This method of repayment is known as "blended instalment". The other method commonly used is for the borrower to repay fixed amounts of principal, plus whatever the actual interest is due. In the above example, the borrower would repay \$41.66 monthly off the principal, plus \$10.00 interest the first month, and successively less each subsequent month, as the principal balance is reduced.

P 22

Purposes of Loans

The purposes for which personal loans are made are wide and varied. Section 4 (1) (b) of the Credit Unions Act indicates as one of the objects of credit unions:

the making of loans to members with or without security for provident and productive purposes

Loans are made for all reasonable purposes at the discretion of the Credit Committee of the individual group. Appendix 4 illustrates this well.

P 23

Security for Loans

The security taken on personal loans is indicated in Article V, 3(d) of the By-Laws, which reads in part:

... a chattel mortgage, an assignment of wages or other moneys receivable, an assignment of shares of the credit union, or the endorsement of a promissory note may be deemed security.....

P 24

A promissory note is always taken, whilst a wage assignment and credit union shares are the commonest forms of security taken. Where a borrower is self-employed, an assignment of monies receivable is often taken. Chattel mortgages are fairly common security in cases of loans for new or late model automobiles. Such chattels are generally either registered or covered by chattel lien non-filing insurance. Co-makers often sign promissory notes, and sometimes wage assignments.

P 25

Authority to Grant Loans

The responsibility for the granting of loans belongs to the Credit Committee. Section 31(b) of the Credit Unions Act states:

It is the duty of the Credit Committee to consider all applications and approve all loans to members.

P 26

Repayment of Loans

The Board of Directors may set loaning policies with which the Credit Committee must comply. There are no regulations, other than those which may be set by the Directors, regarding terms of repayment. In practice, loan repay-

ments are generally made weekly, every two weeks, semi-monthly or monthly, over periods from six months to three years. Members may be permitted to refinance their loans without charge or bonus to extend the terms in cases of necessity. The obtaining of a new loan to add to an existing loan balance is common practice. Because of the underlying philosophy of credit unions, delinquents are treated as reasonably and fairly as possible, and everything possible is done to help a borrower in difficulty, including the postponement of principal payments, and sometimes the waiving or reduction of interest.

P 27

Loan Insurance

Most credit union loans are life insured 100% up to age 70, and insured against permanent disability up to age 60, by the CUNA Mutual Insurance Society, up to a limit of \$10,000. No extra charge is made to the borrower for this insurance.

P 28

Mortgage Loans

As indicated above, any loan in excess of \$3,000 (sometimes \$5,000 or more) in excess of member's savings, must be secured by a first mortgage on real estate. Usually, total mortgage loans under a regulation of the government authority must not exceed 25% of a credit union's assets, nor may an individual mortgage exceed 66⅔% of the appraised value of the property offered as security. A five-year renewal clause in the mortgage agreement is required by the government authority.

P 29

Usually, only large credit unions with considerable surplus funds make mortgage loans, as priority is always given to personal loan requirements. Interest rates vary from 5½% to 7%, calculated either on a monthly, quarterly or semi-annual basis. Loans are usually insured at no extra cost to the borrower. The borrower bears the legal cost of the mortgage, because the total charge would not exceed the legal maximum of 1% per month on the unpaid balance.

P 30

Credit unions are not permitted to take second mortgages, except as security on personal loans.

P 31

Disclosure of Loan Costs

Credit unions always make full disclosure of the cost of their loans, both in dollars and percentage-wise. For example, \$1,000 to be repaid in 24 monthly instalments; using the formula set out in paragraph 21 above, interest will amount to \$125 (if 1% on decreasing monthly balance). There are no other charges.

The simple interest annual rate is 12%, which can be shown by the following formula, for calculating simple interest rates;

$$R = \frac{2 \times m \times I}{P(n + 1)}$$

where R = the annual rate of interest.

m = the number of payments in a one-year period
(12 if monthly payments, 52 if weekly payments, etc.)

I = the total cost of the credit (including any extra fees or charges).

P = the principal borrowed (or the cost of the merchandise).

n = the number of payments actually scheduled (12, 24, 36 etc.).

P 32

We maintain that similar disclosures of dollar cost and percentage charge can be made by other lenders. For example, on the purchase of a car:

Selling price (including sales tax)		\$2,575
Less: trade-in allowance	\$1,250	
cash down payment	250	1,500
		<hr/>
		1,075
Plus: insurance premium		75
		<hr/>
Amount to be financed		1,150
Plus: finance charge		98
		<hr/>
		1,248
		<hr/>
Number of monthly payments		12
Amount of each payment		\$ 104

By using the above formula, it can be calculated that the cost of financing is at the rate of 15.7% annual simple interest rate.

P 33

We feel very strongly that all consumer credit lenders should be required to state:

- (i) the full dollar cost of credit (whether it be interest, insurance, carrying charges, service charges, fees, or any other cost involved);
- (ii) the percentage rate of *all* charges (as indicated in (i) above) in a uniform way, either as a percentage of the amount financed, or as a percentage rate on the decreasing monthly balance, or as an annual simple interest rate;

in all contracts and all advertising and publicity.

P 34

At present, because of the lack of such requirements we have situations such as:

- (a) The chartered banks are limited to a charge of 6% per annum on loans. In the public mind a "bank loan" costs 6%. Rates on bank loans vary, of course, but as pointed out in paragraph 18 above, the cost of an insured personal loan from a bank can amount to over 11% in annual simple interest.
- (b) Again, an automobile seller can advertise bank rate financing—5½% or 6%, but the true interest rate is over 11%.
- (c) Small loans companies generally advertise loans by stating only the amount to be loaned, and how many monthly payments of so much are required to pay off the loan. There is no mention of total cost of loans, nor of the interest rate. In one such advertisement, showing seven different amounts of loans for different repayment periods annual simple interest rates varied from 12% to 24%.

P 35

It is our contention that full disclosure of dollar cost and percentage cost can be made by all consumer credit lenders. (See under "Banking and Finance Commission Report"—paragraph 37).

P 36

Banking and Finance Commission Report

The Ontario Credit Union League submitted a Brief to the Royal Commission on Banking and Finance in 1962, and were very interested in the Commission's Report published recently.

P 37

We wish to go on record as supporting the following recommendations of the Commission:

- (1) On page 382 of the Report, under the heading "The Regulation of Small Loan Charges,"—"In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty."

Again on page 207 of the Report, under the heading "Sales Finance Companies"—"... we believe there is a strong case for disclosure in both forms (i.e. dollar cost and effective interest rate) so that customers may readily compare the cost of funds in contracts which are not identical as to terms and amount." (words in brackets ours).

- (2) That the present 66⅔% loan to value ratio on first mortgages be raised to a maximum of 75% which would tend to reduce the use of the higher cost second mortgage market (page 561 of the Report).
- (3) That all personal cash lending, not just that covered by the Small Loans Act, be subject to a maximum charge on all amounts up to \$5,000 rather than the present \$1,500, and that the present 2% per month maximum on the first \$300 borrowed—on which administrative expenses are high—be retained, and that a flat rate of 1% per month maximum apply to all higher amounts.

P 38

The Commission made a generally favourable report on Credit Unions and Caisse Populaires, and we complete our submission to the Committee by quoting the closing paragraph of Chapter 9 of the Commission's Report (pages 170/171):

The credit unions and caisses will, no doubt, continue to evolve and change, to become larger in size and more professional in operation, and to be more and more subject to market forces as a result of growing competition and narrowing earnings spreads. Yet we feel their emphasis will always be coloured by their wider social objectives of encouraging thrift, rehabilitating the financially improvident through the sound use of credit, and giving priority to the small borrower who cannot turn elsewhere at reasonable rates.

While naturally anxious to see the interests of the whole community safe-guarded, we have been no less concerned to ensure that the caisses populaires and credit unions are as free as possible to continue serving the local and special needs of their members in the spirit of co-operation and self-help which has been so largely responsible for their development.

WHAT IS A CREDIT UNION

(A) *Definition*

A credit union in Ontario is an association of people, in membership together under a common bond incorporated under provincial charter, for the main purposes of encouraging savings and providing low-cost loans, owned and operated solely by the members for the benefit only of the members.

(B) *Origin and Growth*

Credit unions were first introduced into North America at Levis, Quebec, by Alphonse Desjardins in 1900, and into the United States in 1909. In Ontario 1913 saw the formation of the province's first credit unions, although the first credit union charter was not issued until 1928. By 1949 there were some 423 active credit unions in Ontario with total assets of \$21,000,000 and by 1963 the number of credit unions in the province had risen to more than 1500 with total assets of approximately \$320,000,000. 1420 of these credit unions are members of this League, and they can be classified according to their bond of association as follows:

Industrial	741
Community	169
Religious	223
Government—civic, provincial and federal	148
Ethnic, labour and associational	139
	<hr/>
	1420
	<hr/>

(C) *Philosophy*

Credit unions, both in Europe and North America were born out of human need, delivering people from the rapacious usurer, and also providing them with the means by which, in some measure, they could control their own financial and economic destiny.

The philosophy of credit unions is grounded in the simple idea that "I am my brother's keeper". Hence the association of people with a common bond—industrial, community, religious, government, ethnic, etc., pooling their resources through savings, and making available those funds for members needing to borrow, with all surpluses after statutory and other necessary reserves being returned to the member.

(D) *Operation*

A credit union is operated by a Board of Directors, which is responsible for the overall administration, a Secretary and Treasurer, a Credit Committee which approves loans, and a Supervisory Committee which examines and audits the records and books. The Board and Committees are elected by the membership.

Ontario credit unions are controlled by provincial legislation in the form of the Credit Unions Act and the Corporations Act, and are open to government inspection, whilst those credit unions in membership with the League are open also to examination by the League. The employment of external auditors is not statutory, except for credit unions providing chequing services to their members, though many other credit unions do employ them. The inspections and examinations referred to above are comprehensive enough to provide efficient province-wide supervisory control of credit unions.

(E) *Financial Structure*

Liabilities

Shares

There is only one class of shares represented in the capital of a credit union. The Credit Unions Act, Section 19 reads:

A credit union may create a capital divided into shares, and the amount thereof, the number of shares, and the payments thereon, shall be determined by its by-laws, but the amount of each share shall in no case exceed \$10.

However, the Ontario Standard By-Laws, Article III, 1, (Appendix 2) limits the value of each share to \$5.00, which is the norm for Ontario credit unions.

A dividend may be paid annually on shares, on the recommendation of the Board of Directors, and on the approval of the members at the annual meeting. The Credit Unions Act, Section 44 reads:

At each annual meeting a credit union may by resolution upon the recommendation of the board of directors declare a dividend payable to all members at the end of the previous fiscal year on the amounts paid in on shares held by such members at any time during the year as is determined by the resolution.

Shares have formed by far the largest part of credit union liabilities in Ontario for the following reasons:

1. Shares have always been regarded as the fundamental "capital" of a credit union, and as the members own the organization, it seemed natural to express that ownership by investment in shares. Deposits were regarded as secondary, being introduced for personal chequing service or to attract more new money from members than shares were providing.
2. Members investing in shares, share a common liability—to the extent of their shareholding, whereas depositors are preferred creditors. Credit union philosophy suggests to us that a preponderance of shareholding over deposits is more in keeping with the credit union idea.
3. The fact that shares form the major part of a credit union's liabilities results in larger allocations to the Guarantee Fund. Deposit interest is usually charged as an expense, thus reducing net profits on which the 20% statutory allocation to the Guarantee Fund is based. Dividends on shares are, of course, a distribution from Undivided Earnings (net profit plus accumulated surplus).

Deposits

Deposits are permitted under Section 4 (1a) of The Credit Unions Act:

The receiving of moneys on deposit from members and as payment for shares.

and under Article IV (1) of the Standard By-Laws (Appendix 2). Two classes of deposits are commonly used by credit unions:

- (a) Regular deposits, bearing interest, generally depending on length of time funds remain on deposit. Interest rates generally vary between 3 and 5 per cent.
- (b) Deposits for personal orders offered by about 6% of Ontario credit unions. Interest rates vary from nil to 3%.

Loans Payable

A credit union may borrow up to 50% of its capital, deposits and surplus. The Credit Unions Act reads:

Section 36,

The board of directors of a credit union may pass resolutions for borrowing money but at no time shall the total amount borrowed exceed 50 per cent of its capital, deposits and surplus.

Section 37,

Nothing in section 36 limits the amount that may be received on deposit from members.

Section 38,

No resolution referred to in section 36 takes effect until it has been confirmed by a vote of not less than two-thirds of the members present or represented by proxy at a general meeting of the credit union, duly called for considering the resolution by notice specifying the terms of the resolution to be confirmed, or until unanimously sanctioned in writing by the members of the credit union, but no confirmation of any such resolution is required when the total sum borrowed does not exceed 25 per cent of the capital, deposits and surplus of the credit union.

The bulk of the borrowing is from the League Central, with the Ontario Co-operative Credit Society and chartered Banks providing most of the balance.

Guarantee Fund Reserve

Section 28 (1) of the Credit Unions Act provides that "Every credit union shall set aside at least 20 per cent of its yearly net profits as a guarantee fund to meet losses, and the fund shall be held as a reserve against uncollectable loans and losses, but where at the close of any fiscal year the amount set aside for the guarantee fund equals at least 10 per cent of the total amount received from members on deposit and as payment for shares, the directors may, subject to the approval of two-thirds of the members present at the annual meeting, direct that no moneys be set aside for the guarantee fund for the then current year".

New legislation in 1964 is providing relief from the 10% requirement to credit unions with assets exceeding \$500,000.

Undivided Earnings

The net earnings of a credit union for a fiscal year (income less expenses) are credited to an Undivided Earnings account. After providing for the statutory Guarantee Fund reserve of 20% (para. 27 above), most of the balance is returned to members in the form of dividends on shares, and often in rebates on loan interest paid during the year. Frequently there is a balance left in the Undivided Earnings account. Some credit unions make a practice of building this account up as a reserve fund, sometimes transferring amounts from Undivided Earnings to a Contingency Building or General Reserve. Such reserves would be available for future use as the membership might determine.

Other Funds and Reserves

These generally consist of Contingency, Building and General Reserves (see para. 29 above) and Educational Funds. Regarding the latter, The Credit Unions Act 1961, Section 28(2) states:

A credit union may by resolution of the members provide that after making provision for the guarantee fund and before declaring a dividend, an amount not exceeding 5 per cent of the net earnings be set aside in a special fund to be used for such education purposes as are specified in the resolution.

Assets

Loans to members. The basic policy of credit unions regarding investment of funds received is to loan out the bulk of such funds to members. On average, about 85% of credit union assets are represented by loans to members.

Other Assets

Other assets consist of cash, investments, land and buildings, equipment and prepaid expenses.

(F) Economic Significance

This League feels that Ontario credit unions have an increasingly important place in the economy of the province, and in the well being of its people, more than half-a-million of whom are credit union members. Among the accomplishments of these credit unions we mention the following:

1. Successful encouragement of thrift.
2. Making available low-cost loans to many people not otherwise eligible for such loans.
3. The training of thousands of voluntary workers who give time and talents in the service of their fellow-men.
4. Family financial counselling.
5. Improvement of relations between labour and management by industrial credit unions.
6. Improvement of local economic conditions through strong community credit unions.

1962 STATISTICS
OF
CREDIT UNIONS AND CAISSES POPULAIRES IN ONTARIO
Balance Sheet

ASSETS

Cash and Bank\$ 16,373,392.

Investments:

O.C.C.S.	4,054,050.
O.C.U.L.	8,170,705.
Government Bonds	6,919,123.
Other	13,206,476.

Loans:

Personal	224,531,602.
Mortgage	40,407,531.
Estate	1,502,409.
Other	514,241.

Fixed Assets:

Land and Building	3,143,298.
Equipment	1,102,903.

Prepaid and Other Assets 777,136.

TOTAL ASSETS\$320,702,866.

LIABILITIES

Shares\$225,818,634.

Deposits 50,373,376.

Loans:

O.C.C.S.	2,629,228.
O.C.U.L.	9,022,541.
Other	3,203,904.

Guarantee Fund 12,613,453.

Undivided Earnings 15,159,623.

Education Fund 76,265.

Other Reserves 1,043,843.

Other Liabilities 761,999.

TOTAL LIABILITIES\$320,702,866.

Credit Unions Reporting	1283	Number of Members:	
Caisses Populaires Reporting	74	Credit Unions	513,509
	-----	Caisses	56,770
	1357		
	-----		-----
			570,279

ONTARIO CREDIT UNION LEAGUE LIMITED
STATISTICS FOR THE YEAR ENDED DECEMBER 1962

	\$0 to \$50,000	\$50,000 to \$150,000	\$150,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$3,000,000	\$3,000,000 and over	Overall
Percentage of Total Assets.....	%	%	%	%	%	%	%	%
ASSETS								
Cash on hand and in Bank.....	9.4	7.4	5.1	4.5	3.9	4.5	2.3	4.6
Investments—OCCS.....	1.0	0.9	1.0	1.7	1.1	2.6	1.5	1.5
OCUL.....	4.9	4.7	4.2	3.4	3.3	2.7	1.3	3.0
Govt. Bonds.....	0.2	0.8	0.8	1.5	1.3	3.2	4.9	2.4
Other.....	0.8	1.6	0.9	1.6	0.7	2.0	0.3	1.1
Loans—Personal.....	82.1	81.6	83.3	79.8	80.7	66.7	76.9	77.6
Mortgage.....	0.6	1.7	3.6	5.9	7.0	15.1	11.9	8.3
Estate.....	0.1	0.2	0.1	0.0	0.7	0.2	0.0	0.2
Other.....	0.1	0.3	0.0	0.0	0.0	0.6	0.1	0.2
Fixed Assets—Land & Building.....	0.0	0.1	0.2	0.8	0.8	1.6	0.5	0.6
Equipment.....	0.4	0.4	0.5	0.5	0.4	0.5	0.2	0.3
Prepaid and other Assets.....	0.4	0.3	0.3	0.3	0.1	0.3	0.1	0.2
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
LIABILITIES								
Shares.....	82.1	82.4	81.6	80.4	81.4	71.4	76.5	78.3
Deposits.....	2.5	2.0	3.1	4.3	3.0	16.5	9.1	7.2
Loans—OCCS.....	0.4	0.7	0.7	1.1	1.0	1.3	1.1	1.0
OCUL.....	5.1	4.5	4.0	4.2	4.5	1.7	2.1	3.3
Other.....	0.3	0.3	0.3	0.2	0.2	0.7	1.2	0.5
Guarantee Fund.....	3.7	4.0	4.2	4.0	4.2	3.7	4.5	4.1
Undivided Earnings.....	5.5	5.7	5.6	5.5	5.2	4.3	4.9	5.2
Education Fund.....	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Other Reserves.....	0.1	0.2	0.2	0.1	0.4	0.2	0.4	0.2
Other Liabilities.....	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Guarantee Fund as Percentage of Shares and Deposits.....								
Guarantee Fund as Percentage of Loans.....	4.40	4.74	4.92	4.84	5.01	4.28	5.27	4.84
Loans as Percentage of Shares and Deposits.....	4.50	4.78	4.79	4.76	4.79	4.55	5.06	4.80
Average Investment per Member.....	\$172.	\$307.	\$375.	\$420.	\$499.	\$636.	\$734.	\$451.

ONTARIO CREDIT UNION LEAGUE LIMITED
STATISTICS FOR THE YEAR ENDED DECEMBER 1962

	\$0 to \$50,000	\$50,000 to \$150,000	\$150,000 to \$250,000	\$250,000 to \$500,000	\$500,000 to \$1,000,000	\$1,000,000 to \$3,000,000	\$3,000,000 and over	Overall
Percentage of Gross Income.....	%	%	%	%	%	%	%	%
INCOME								
Interest—Personal Loans.....	94.7	93.6	93.8	90.7	90.2	82.4	86.3	89.0
Mortgage Loans.....	0.2	1.1	1.7	3.4	4.4	9.3	8.0	5.0
Dividends and Interest Income.....	2.3	2.9	2.5	3.5	3.0	5.8	4.7	3.9
Other Income.....	2.8	2.4	2.0	2.4	2.4	2.5	1.0	2.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
EXPENSES								
Salaries and Honoraria.....	6.8	7.0	9.6	11.1	13.3	13.0	9.2	10.5
Share and Loan Insurance.....	13.4	12.7	12.6	12.2	12.4	12.0	11.8	12.2
Interest on Borrowing.....	3.4	3.2	3.2	3.2	3.4	3.4	1.9	3.0
Interest on Deposits.....	0.3	0.4	0.6	1.5	0.6	4.5	4.2	2.2
Occupancy Costs.....	1.0	1.0	1.2	1.2	1.5	1.7	1.5	1.4
Employee Benefits.....	0.0	0.0	0.0	0.2	0.4	0.5	0.6	0.3
Annual Meeting.....	1.3	1.1	1.0	0.8	0.6	0.5	0.3	0.7
Education.....	0.9	0.7	0.8	0.7	0.9	0.9	0.5	0.7
Office.....	4.8	2.8	3.7	3.4	2.9	3.0	2.6	3.1
Miscellaneous.....	6.5	5.7	4.0	4.2	3.2	2.7	1.8	3.5
	38.4	34.6	36.7	38.5	39.2	42.2	34.4	37.6
NET INCOME.....								
	61.6	65.4	63.3	61.5	60.8	57.8	65.6	62.4
Salaries and Honoraria as Percentage of Total Expenses.....	17.8	20.1	26.3	28.9	34.0	30.9	26.9	27.9

APPENDIX 4

Purposes of Loans

Following are actual extracts from Credit Committee reports of three Ontario Credit Union Annual Reports, showing breakdowns of loans made during the year.

(1)

Purpose	No.	Amount
Real Estate Mortgages	21	\$111,648.12
Down Payment on Homes and Home Improvements	207	136,946.96
Purchase of Automobiles or Automobile repairs	203	140,201.75
Purchase of Furniture and Household Appliances	93	33,444.51
Medical, Dental or Medical Insurance	93	22,421.45
Consolidation of Debts	113	52,931.37
Vacations	140	38,211.28
Purchase of Clothing	19	2,290.00
Taxes—Income and Real Estate	44	12,778.77
Miscellaneous	241	70,969.16
	<hr/> 1,174	<hr/> \$621,843.37

(2)

Purchases Homes and Mortgage Payments	38	\$ 56,859.68
Purchase of and Repairs to Cars and Boats	171	169,012.12
Home Improvements	95	45,216.88
Furnishings and Appliances	53	21,999.13
Bills and Consolidation of Debts	63	32,825.11
Vacations	62	18,498.00
Taxes and Insurance	36	8,452.25
Medical and Dental	16	2,385.00
Tuition	7	3,163.50
Sundry (weddings, funerals, legal, etc.) ...	90	22,303.00
	<hr/> 631	<hr/> \$380,714.67

(3)

Automobiles and Repairs	\$138,464.27
Bills	113,151.82
Clothing	6,872.65
Taxes and Insurance	15,610.15
Education	6,550.00
Funeral and Emergency	3,220.00
Home Improvements	87,963.54
Home Purchases, furniture, boats and motors	81,620.39
Business	135,115.36
Medical	12,662.05
Fuel and Heating	4,531.00
Personal	19,225.00
Vacation and Wedding	23,076.16
Christmas	4,270.00
	<hr/> \$652,332.39



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 5

TUESDAY, JULY 7, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

WITNESSES:

Canadian Federation of Agriculture: Mr. J. M. Bentley, President; Mr. David Kirk, Executive Secretary; Mr. Lorne W. J. Hurd, Assistant Executive Secretary.

APPENDIX

C—Brief from the Canadian Federation of Agriculture.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-
Rainy River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Deachman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Pennell
Ryan
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss),

Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,— That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act.)

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, July 7th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators: Croll (Joint Chairman) and Irvine, and

House of Commons: Messrs. Greene (Joint Chairman), Bell, Clancy, Irvine, McCutcheon Nasserden, Orlikow and Vincent.—10.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Vincent, it was Resolved to print the brief submitted by the Canadian Federation of Agriculture as appendix C to these proceedings.

The following witnesses were heard:

Canadian Federation of Agriculture: Mr. J. M. Bentley, President, Mr. David Kirk, Executive Secretary, Mr. Lorne W. J. Hurd, Assistant Executive Secretary.

At 11.45 a.m. the Committee adjourned until Tuesday, July 14th, 1964, at 10.00 a.m.

Attest.

Dale Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, TUESDAY, July 7, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: We have a quorum. This morning we have a brief from the Canadian Federation of Agriculture.

Motion adopted that the brief be printed in the report of the proceedings.

(See appendix C.)

Co-Chairman Senator CROLL: Our witnesses this morning are Mr. J. M. Bentley, President, Canadian Federation of Agriculture, Mr. David Kirk, Executive Secretary, Canadian Federation of Agriculture, and Mr. Lorne W. J. Hurd, Assistant Executive Secretary, Canadian Federation of Agriculture.

Mr. Bentley, will you start?

Mr. J. M. Bentley, President, Canadian Federation of Agriculture: Thank you very much, Mr. Chairman. Ladies and gentlemen, I can assure you that it is a pleasure for us to make these representations to you this morning. We are interested in these important matters which you have been discussing. My intention this morning is just to read the summary and conclusions contained in the brief, and then either myself, Mr. Kirk or Mr. Hurd will be prepared to try to answer any questions which you may have.

1. The Canadian Federation of Agriculture, a national general farm organization widely representative of farm people, holds the conviction that there has been a clear-cut need for legislative action to protect the public interest in the consumer credit field, and that there has been an undue delay on the part of our elected representatives in meeting this need.

2. The Federation is encouraged by the appointment of the Joint Committee of both Houses of Parliament to inquire into this subject, and urges the committee to "clear the decks" for appropriate legislative action.

3. Farm people, as purchasers of both consumer and production goods and services on credit, are very much concerned with the subject of the committee's inquiry.

4. This concern has been reflected in resolutions passed at recent annual meetings of the CFA, calling on the Government to pass finance charges disclosure legislation and to limit interest rates charged by finance companies to reasonable levels.

5. The nation's farm organization recognizes that buying on credit has become a well established practice in the Canadian economy, and that there are legitimate interest charges and other costs associated with providing the financing of purchases on credit. Notwithstanding, it thinks consumers have

a right to know in advance of entering into a credit transaction the real level of finance charges involved, expressed in both dollar amounts and simple annual interest rates, and that consumers are also entitled to reasonable protection from excessive charges and exploitation at the hands of those providing credit services.

6. The kind of finance charges disclosure legislation that the CFA is advocating would be similar in intent to that which has been introduced a number of times in the Senate by Senator David Croll. The submission outlines briefly the provisions of such legislation, the reasons for them, and the benefits which would be expected to result from the passage of such legislation.

7. The submission suggests that an appropriate department of government be charged with the responsibility of administering such legislation, and it makes two specific proposals with respect to administrative duties. First, it is suggested that the administration would issue an official standard form for finance disclosure purposes which would be so designed as to set out simply and clearly the required information, and that this form would be required to be used and attached as one of the documents in every transaction involving consumer credit. Second, it is suggested that the administration also issue interest rate and finance charge books, so that finance companies, retail stores and dealers would not have to make the complex calculations of interest rates themselves.

8. Farm people have an occupational as well as a consumer interest in credit financing. The submission records the fact that a large portion (40% in 1961) of the total amount of credit extended to farmers annually is supplied through farm machinery and supply companies of various kinds. The limited information available on interest rates on such operating credit suggests that it often exceeds 16%.

9. The CFA believes that farm people, who as a group are good credit risks, should not have to pay finance charges at the rate of 16% or more for short term operating credit. It maintains that such interest rates are excessive and reflect a serious deficiency in the farm credit system. It suggests that while finance charges disclosure legislation, if applied to such transactions, may not provide the complete answer to the problem, it would have a salutary effect. The Federation recommends the Committee give consideration to having the finance charges disclosure legislation apply to farm supply and machinery companies, as well as to companies extending consumer credit.

10. The submission briefly outlines the arguments advanced in opposition to the passage of finance charges disclosure legislation and finds them wanting.

11. The Federation of Agriculture expresses its pleasure that the Royal Commission on Banking and Finance has firmly supported continuation of effective controls, through the Small Loans Act, on levels of interest rates charged by loan companies.

12. The organization challenges, however, the need to completely abandon the $\frac{1}{2}\%$ per month maximum limitation now imposed in the Small Loans Act on amounts between \$1,000 and \$1,500 as the Commission proposed. The Federation recommends instead that this interest limit be retained with perhaps some adjustment upwards of the level at which it is introduced, i.e. at say \$1,500 or \$2,000. The CFA also strongly recommends that the maximum size of loans to which the Small Loans Act applies be raised from \$1,500 to at least \$5,000.

Now, ladies and gentlemen, I think there is one other point I would like to emphasize at this particular time. I think we all realize that farmers now are requiring a great deal of operating credit in the operation of their their modern farms, and this operating or production credit, we feel, should come under

any legislation which the two Houses of Parliament may decide to enact at this time. Possibly this is why we have emphasized this particular phase of our interest in this problem. Thank you, Mr. Chairman.

Co-Chairman Senator CROLL: Have you any questions, gentlemen?

Mr. CLANCY: I am curious about one point you make in your brief. Have you ever financed anything with respect to which you could not find out either by reading the contract or asking the fellow who is selling you the contract what the service charges were and what the interest was? If you have a pencil you can figure it out for yourself. Who are you protecting here? I think a businessman should be able to figure out for himself whether it pays him to borrow money or not.

Mr. BENTLEY: Mr. Chairman, in answer to that I would suggest there are many, many people in the country who have not the ability to find out just what they are paying for the accommodation of credit they are receiving. I suggest it is not quite as simple as you are suggesting. While you as businessman, possibly, are able to decide that you can afford to pay this amount of charges, I do not think the average person is in any position to assess adequately what he is paying for this particular accommodation of credit.

Mr. CLANCY: What is the purpose of what you are trying to do? I am against high interest rates. I borrow money at as low a rate as I can get. I do not think anybody should borrow money unless he knows what he is borrowing it for.

Mr. BENTLEY: I think the reason for disclosure legislation is that the purchaser would then be in a better position to compare the charges of one finance company or loan company with those of another—if those charges are clearly stated on the contract. The purchaser is then in a position to decide what is the best deal he can make. It seems to me that you are then bringing competition into this field, and I think that is pretty important.

Mr. David Kirk, Executive Secretary, Canadian Federation of Agriculture: May I make a supplementary remark?

Co-Chairman Senator CROLL: Yes, go ahead.

Mr. KIRK: I do not know how much importance will be attached to this observation, but in the field of consumer credit it has been my experience, as a consumer that when people go out to make an important purchase, the relationship that is established with the salesman has much to do with it. A good salesman establishes a rather personal relationship with the purchaser. This is part of the process. For the ordinary consumer buying a washing machine, a piano or a car the context of activity is really not under the heading of "Bargaining Process" but under the heading of "Personal Relationship". In the final stages it is not easy for a consumer to say: "Now, I am really suspicious about this. I want to take this contract and go through it with a pencil and paper, and to read all the fine print." To most consumers this is, in fact, not easy at all. To most consumers, who are not hard-headed businessmen but people who want to get along in the world, it is an unpleasant procedure. Our suggestion is that they should be given that information automatically, so that they do not have to make what some salesmen would suggest is a sort of veiled attack on their integrity.

Mr. CLANCY: I disagree with that statement. I point out that in our economy today that if you go out and pay cash you do not get a discount. You can make up your mind whether you can invest your money at 7 per cent in second mortgages, or whether it is better to pay something for the credit you are getting. I can take you into any department store—I am talking about consumer credit—and show you the price on a washing machine, and also show you that it does not matter whether I buy that washing machine over twelve months or pay cash for it.

I used to expect that if I paid cash I would obtain a discount. Nowadays I know I am paying a service charge, but I am paying the same price for the machine.

I am talking about the ordinary household appliances and ordinary consumer credit; I am not talking of farm machinery or industrial machinery. The cash customer is always stuck. For \$3 you can buy a washing machine and pay for it over twelve months. That is a low rate of interest. The interest is applied on the mark-up, but the cash customer cannot take advantage of it.

Senator IRVINE: Mr. Chairman, do you think that the cash customer is not wanted? A few years ago I was going to buy a new washing machine, and I had decided on the make that I thought I would like. I had a salesman come up to see me. He was a very fine young man. We went down into the basement and he demonstrated the qualities of his machine. I then decided to try another machine. Another nice salesman came along. I had decided to take this last machine, but then a high-powered salesman came to see me, and he proceeded to tell me how I was going to pay for this machine. I think a great number of women are in exactly that position when they listen to high-powered salesmen. The result was that I asked him whether he was paying for the machine or whether I was paying for it. I told him that I had decided to buy his machine, but after his talk I had decided to buy the other. There was very little difference between the quality of the two. I do think that high-powered salesmen have a great deal to do with it—not only with women but, in many cases, with men. I think there should be a price, but many people at the present time, regardless of cost, will buy something if they want it, and it is only the down payment that they want to know.

Mr. ORLIKOW: I disagree completely. I think that people want to know what their credit charges are. By the time the big retailers are finished with interest rates and service charges and all the rest of it a purchaser would need to be a chartered accountant complete with a slide rule to know what the rate of interest is that he is being charged.

I would like to ask a question of the delegation. Paragraph 8 of your summary talks about the fact that interest rates on such items as farm machinery often exceed 16 per cent. It seems to me that a very important field of purchase of farm operators is in farm machinery, cars and trucks. Have you any information on the interest rates paid by farmers on those very essential items?

Mr. KIRK: The information was disclosed in the report of the Royal Commission on Banking and Finance in some detail and showed that farmers are no different from other consumers in the purchase of cars and trucks. The interest rates ranged upwards from 16 per cent to 18 per cent in some cases and they were also as low as about 12 per cent. The interest rates fluctuate within that range for truck car contracts. I think the farmers' experience would be similar to urban experience.

Mr. ORLIKOW: Do you have any information as to whether farmers are purchasing used cars or trucks or whether interest rates in this field would be higher?

Mr. KIRK: I would say that the interest rates would tend to be somewhat higher and I think that is the information contained in the report of the Royal Commission on Banking and Finance.

Mr. ORLIKOW: On that point, I notice you have a table on page 6. Towards the bottom, you show short-term credit, banks, estimated average interest rate, 6 per cent.

Mr. KIRK: Yes, in some cases I think the banks tend to give two kinds of contracts. One is where a person, either through his equity or otherwise, can insist on getting 6 per cent. In other cases they charge more, through the

service charges involved. We know that in the second type of contract the interest rates go up over 10 per cent, in the term of interest rates, but I understand they are within the Bank Act, because they are still charging an interest rate of 6 per cent plus finance charges involved.

Mr. ORLIKOW: What is the actual interest rate? Is it usually 6 per cent or is it 6 per cent plus?

Mr. KIRK: I cannot answer that. I think this would vary from individual to individual, dependent on the deal he made with his banker. Personally I have had experience of being able to get a 6 per cent rate, but I do not think this happens in all cases.

Co-Chairman Mr. GREENE: Could you tell us if you notice any improvement in the situation in the last year or two, that the consumer credit field has become more competitive, or is there any appreciable difference?

Mr. KIRK: The fact is that we do not have the kind of close continuing surveillance of this field that would let us make a judgment. The Royal Commission made an observation, in that it felt that greater competition would enter this field. I think they said the tendency was for profit margins to become lower. Whether this is the same thing as the interest rate going down is another question. A man might conceivably spend more money and get the same loans, and there still might be a drop in profit margins.

Co-Chairman Mr. GREENE: So far as you know, have any benefits seeped through to the farmer, in your observation in the past year or two, from easier credit?

Mr. KIRK: I do not think we have any information as to what precisely has happened in the last year or two.

Co-Chairman Mr. GREENE: I know that in your summary you rather envisaged that the market place will take care of the problem, if the market place is made an honest one whereby interest rates are clearly defined, so that the competition is a fair one for the consumer. At the other end, you wish to remove the market place from a certain area, namely under the Small Loans Act. You still want limits. In other words, you want a free market place up to a point. Can you tell me why you feel there is some benefit to be derived from putting these limits, once you have full disclosure?

Co-Chairman Senator CROLL: Who is going to benefit from that?

Mr. KIRK: The position that we take—and I think the point is made in the brief—is that we do not feel that finance disclosures provide the whole answer. We think that for many people they will provide realistic information, perhaps for the first time, of what they are paying and will cause them to personally explore more fully the credit possibilities, the credit position and the credit cost. Secondly, we think that the existence of this legislation and the kind of information which regularly will result from it, will lay the basis for what we would consider to be the need for a much improved, widely ranging and continuing process of education about the use of credit on the one hand, and an inquiry into the possibilities of more sources of credit and even credit institutions, from the farm point of view, on the other.

Our position is not that these two recommendations we have here are the final word in dealing with the credit problem. As an organization, we have a solid credit policy, but our people are increasingly concerned about the position in the intermediate and short-term credit field. We consider this figure of 40 per cent through sales financing is essentially too large. We would doubt if disclosures of finance charges would be effective in reducing interest rates to the point where we would consider them correct. We are inclined to think that the direction in this matter is to point to some major attempt to have

farmers make much greater utilization of bank and credit union financing, rather than sales financing. Also, perhaps there is a good deal of evidence to show that, with increasing operations in Canada, and with the intermediate capital financing in the farm business, we may—and we have not thought this through—very well be moving towards the position where we will have to think about the possibility of new intermediate credit institutions. I do not know what they might be. They might be co-operative, or they might entail some participation by government. We have this classic United States case, of a government starting this system and of the co-operative people taking it over. We are not settled in our minds about this. We did think that farm improvement loans were doing the job better than recent evidence, such as the figures in this brief, indicate they are doing. For a long time we thought they were doing the job more adequately than the evidence now seems to indicate.

Mr. McCUTCHEON: I know that farm people buy appliances and all the other things that you assume to be on consumer credit. I notice here on page 7 that machinery companies extended credit for \$235 million. In the brief it is suggested—although you did admit that you do not have anything specific on it—that these rates could be as high as 16 per cent. It looks to me as if there are some more ramifications to this than just talking about this credit. There is the matter of advertising. In every magazine you take up you see advertisements for farm equipment at low bank rates or at 6 per cent. That is advertising continuously across this country. Are you suggesting, or do you agree with me, that this advertising is definitely misleading?

Mr. BENTLEY: I think possibly what is happening here is that the cost of this advertising should be included in the regular list price. I do not think that this advertising is misleading. You actually go to this machinery company to buy and quite often you have not made arrangements with your bank and you get accommodation from the machinery company itself. This is probably where it is up to 6 per cent.

A farmer does not realize he is paying that amount of accommodation for this credit. He would probably be much better off by going to his bank and making arrangements there. This is what I have done myself. I have never paid this 16 per cent; I have always borrowed from the bank personally. However, not all farmers are doing this. As we have found out with regard to this 40 per cent, the machinery companies are providing this finance and they are charging a rate of interest greatly in excess of what a farmer could probably get it for at the bank.

Mr. McCUTCHEON: Do you not agree that probably a great number of these fellows, as Mr. Kirk has suggested, had a friendly arrangement with the dealer, who said, "You don't have to borrow from the bank, we can look after this for you?"

However, I am still coming back to the fact of this advertising. I think farmers are closely enough allied to farming, and that they are familiar with the advertising that is in all our national magazines. I come back to that again. Do you think it is misleading?

Mr. BENTLEY: No, I do not think it is misleading. But, as you have already pointed out, I think the machinery companies are getting into this field and charging a higher rate of interest than they could get through some other source, and the farmer does not realize just exactly how much interest he is paying for this accommodation.

Mr. McCUTCHEON: In respect to farm credit extended and outstanding, 1961, the table on page 6 of the brief sets out the estimated average interest rate of the provincial governments at 3.1 per cent and of the federal Government at 4.9 per cent. That seems to be extremely low.

Mr. KIRK: You are speaking of long-term credit?

Mr. McCUTCHEON: Yes.

Mr. KIRK: In regard to the provincial estimate, built into that program is the Quebec program, which is the major one, and it is at $2\frac{1}{2}$ per cent.

Mr. McCUTCHEON: You have answered that question for me. Do you think one of the reasons people are driven to machinery companies, fertilizer companies and feed companies for credit is that the appraising of the Farm Credit Corporation is too severe, that they are not extending credit sufficiently to the rank and file?

Mr. KIRK: Well, the Farm Credit Corporation, of course, is essentially in the long-term credit field. That is part of the picture there. It is only when a farmer gets involved in getting credit for consolidation of debts, for instance, that he borrows on a relatively long-term basis. I do not think you can conclude that the Farm Credit Corporation is a standard alternative to machinery companies.

Mr. McCUTCHEON: But you suggested the farm improvement loan?

Mr. KIRK: Yes.

Mr. McCUTCHEON: I am lumping the whole thing together. Do you think that they are just taking the cream and leaving the fellow who is just a little marginal to these other people? Do you think that there is any basic merit in this angle? I am not trying to put the finger on anyone, but we are looking for an answer.

Mr. KIRK: I don't know much about this, but I think that whenever you get into credit with fertilizer companies, agricultural and chemical companies, or machinery companies, the credit rate is part of a total credit transaction that involves trade-ins, and in the case of fertilizer or feed, contractual relations of other kinds, and involves claims, and involves the companies saying that they are giving services. In other words, it is a whole complex arrangement between the farmer and the company. Our claim is not that we are against any particular facet—against trade-ins on machinery, or getting service from fertilizer companies in an application for fertilizer. We merely feel that the farmer should be in a better position to assess the total bill without assessing parts of it, in our opinion.

Mr. McCUTCHEON: I know that with fertilizer in particular the spread for a net payment of twenty a month can result in as much as 20 per cent and 22 per cent discounts. There is no question about that. So I assume there is a charge factor built right into the price.

Mr. HURD: It is often the case.

Co-Chairman Mr. GREENE: I think Mr. Nasserden has a question. After his question has been dealt with, our counsel, who read over the brief carefully will have a series of questions; then we can return and cover the subject in an orderly fashion.

Mr. NASSERDEN: The rates that are charged on credit, even higher than 40 per cent, indicates to me that the Farm Improvement Loan legislation has not kept pace with the revolution which is taking place in agriculture today. For instance, a farmer who used to use a four- to five-furrow tractor, has gone to an eight or ten, the price of which has increased from \$4,000 to \$10,000. The same applies to automated feed programs, whether for poultry or hogs. There is an investment in beef on credit from someone promoting this type of thing. This brings about the same type of credit demand for buildings, too, to accommodate that type of automated program.

I know something of what the implement companies in particular have been doing, and all they have tried to do to ensure that they could finance

the sales of implements for which there was a demand. Government programs have not kept pace with the demand for credit. I am not blaming anyone in saying that, but I am just saying that they have not. This is one of the things which has contributed to the situation that has developed. I think this indicates that there is some scope there in the Farm Improvement Loan legislation by way of an extension beyond what we have today, because the whole investment in machinery and equipment and buildings today is changing very rapidly. It has changed particularly during the past five or six years to such an extent that six years ago none of us in this room would have thought that the change which has taken place would have been so rapid. It is therefore a good thing that we are taking a look at it at this time to see what can be done about it.

Mr. BENTLEY: I would agree with what the last speaker has said, that machinery costs have gone up in the past number of years substantially, which requires a great deal of financing on the part of the farmer. Perhaps he has already used up his farm improvement loan capability, and gets the accommodation through the machinery company for this very expensive sort of machine. I think you are quite right that possibly in this area Farm Improvement Loan amounts have not been adequate under present conditions.

Co-Chairman Senator CROLL: What do they amount to, do you know?

Mr. VINCENT: \$7,500. I think they are going to increase it to \$15,000.

Co-Chairman Mr. GREENE: Is your statement, then, that the governments generally, provincial and federal, are not assuming as big a percentage of farm credit needs as was the case, say, five or ten years ago?

Mr. BENTLEY: I think probably that is correct because, as we have already stated, machinery is much more expensive today and the limits of the Farm Improvement Loan program normally are not adequate, especially if you have already used up some of this credit through the Farm Improvement Loan.

Mr. NASSERDEN: Further, along that line, some people might wonder why a farmer does not go to the bank for the balance instead of to these high-priced companies. I think the average farmer, if he goes into the implement dealer, can sit down and sign a contract right there. If he goes to the bank and it happens to involve \$10,000 or a little more, the bank manager might have to write to head office to get the O.K., and there is a delay. In that regard, maybe the banks have not managed to keep pace with the change that is taking place. Where a few years ago if they allowed a person \$10,000 credit they thought they were doing all right, today it has reached the point where they have to think in terms of twice that amount, in many cases. This is what has driven people to the high interest or to this easier completion of their contract, and they can take the implement home at once and use it.

Someone was referring to advertising. I do not think the advertising is misleading. The only thing that might be is that some companies say, "If you buy now we will pay you 6 per cent on your trade-in for so many months." Maybe some people get the idea that is all they are paying in interest when they begin to pay. If they take a look at the figures they get at the end of that time, if they are not able to pay it they are soon corrected in that misunderstanding.

Mr. VINCENT: I see here, on page 6, "Banks (Farm Improvement Loans) \$108.1 million." In my opinion it is very easy for a farmer to get a loan from a bank under the Farm Improvement Loans Act. It is hard for me to understand the difference on page 7, "Machinery companies, \$235.0 million." I am just wondering if this \$235 million is the amount of credit extended to farmers or maybe to agents.

Mr. HURD: No, just farmers.

Mr. VINCENT: You have, for example, a farmer who does not want to go to the bank but who just makes a deal with the agent. He tells him, "I am going to buy this machine, and pay you next fall." So the agent has to put this in his book. There is no interest, but he is dealing with the agent direct, and next fall he is paying \$1,500 or \$2,000. This may be the reason why there is the amount of \$235 million in there, because this difference between the banks to machine companies is too high.

Mr. HURD: I think the kind of credit transaction you are describing is covered in the last item, "Companies providing credit for farm improvement purchases." They would be finance companies or loan companies of various kinds. This particular table was based on a survey in which the farm machinery companies collaborated with Dr. Rust of the Economics Division of the department. These are actual figures of the amount extended and outstanding by farm machinery companies in 1961.

Mr. VINCENT: To the farmers and not to the agents?

Mr. HURD: Yes.

Mr. VINCENT: In the fertilizer business, for instance, companies are extending credit to agents, and the agents back the farmers. But the agents are the ones who get the credit from the companies. I was wondering if this amount of money from companies was to farmers or agents.

Mr. HURD: The footnote to the table on the original says that the credit is extended in some cases up to a three-year period; but there is no qualification that this is an accommodation deal. It is an actual credit extension by machinery companies to farmers.

Mr. ORLIKOW: I wonder if the delegation has any information about whether there has been very much in the way of high-pressure salesmanship in farm areas. I am thinking of the kind of thing we have had in the city, where they sell aluminum windows and that kind of thing. Perhaps a farm wife is given a fast-talking sales pitch, signs a contract and then later they decide they do not want it or that the rates are too high. Perhaps the husband comes home and he does not want it, but a contract has been signed. The British Government has now passed legislation providing for a cooling-off period of 72 hours, and the Consumers Association has recommended this. I wonder if you have any information as to whether it is a fairly prevalent practice.

Mr. KIRK: We really do not have any concrete, documented information on that. We understand it happens. One reads about it in newspapers. I must confess we have not had a large volume of information coming to us from our people about it.

Mr. BENTLEY: I do not think I would accuse machinery companies of indulging in excessive high-pressure salesmanship. Mind you, I am a farmer and I realize, of course, most machinery companies call on my place periodically and try to sell me some new machinery. If I want something, they are prepared to talk business with me. If I am not interested I tell them so. I do not think there is any particular high-pressure. If a farmer needs a combine or tractor or mower or whatever it is, he has a real need and this is quite important to him and he is not going to buy it unless he needs it. The point we are making here is to make this credit available to him at as reasonable a rate of interest as it is possible to secure, and that he knows what he is doing for this particular accommodation. This is an important point.

Mr. ORLIKOW: What about some other things being sold across the country, apart from farm machinery? There is a good deal of discussion about high-pressure salesmanship. If a farmer wants to buy expensive machinery he is going to do some shopping around. Most of us do not do as much as we ought to, but I am thinking of some of the other non-essentials that have been sold

across the country, like encyclopaedias, and so on, which cost a lot of money by the time the purchaser is through paying.

Co-Chairman Mr. GREENE: Cookware.

Mr. BENTLEY: Maybe our wives are victimized more than the farmers you are talking about.

Mr. BELL: Do you think sufficient recognition is given for cash in connection with the purchase of machinery and other large expenditures?

Mr. BENTLEY: The only personal information I can give you is that the last tractor I bought was a cash sale, and I got \$800 off the list price. I think there must be some recognition given for cash provided you are prepared to be a bargainer. I think this is a matter of education. I think farmers must realize they are going to have to operate in a businesslike way and get the best possible deal they can. You can get discounts for cash; this happens all the time.

Mr. NASSERDEN: I think there should be a distinction between what you call farm machinery and appliances and other things like that which people in the city might use as well as farmers. You may get a discount on farm machinery, but it is very difficult to get a discount if you go into Eaton's or Hudson's Bay and try to get a discount on appliances because you are paying cash. It just is not done.

Mr. BENTLEY: I think you are right.

Mr. NASSERDEN: In western Canada the farm machinery business is the most cut-throat competition there is. If you have the cash there is no doubt about it, you can make a deal, or somebody else is going to make a deal.

Mr. URIE: Mr. Bentley, as I understand your submission, if I might go over it for a moment, there are three recommendations you made. You say that there should be a specific government department responsible for the administration of these transactions; secondly, that there should be a standard form of transaction to which one could refer, and, thirdly, that there should be a rate book supplied by all retail dealers. You have explained the first two, but would you like to explain the purpose of the rate book which you suggested, and the proposed contents of it?

Mr. HURD: I shall pass this question to Mr. Kirk.

Mr. KIRK: One of the problems that has been raised generally in connection with this finance charges disclosure legislation has been the problem of the multiplicity of forms of credit available, the numbers of people involved in extending credit, and the difficulty of knowing what is the simple annual interest rate required to be paid on this form. Our idea was simply that on broad principles adequate administrative measures must be taken to see that this can be done. Therefore one of our proposals was that a fairly comprehensive rate book dealing with the various kinds of credit, revolving credit and instalment credit, etc., should be made available. You see, first of all you have to have rules of thumb to say what the interest rate is for a particular deal. I remember, Senator Croll, the first hearing we had, there was a considerable submission made based on the mathematical proof that you could never arrive at an interest rate, but you could arrive at an approximation.

Mr. URIE: Do you have a particular formula in mind?

Mr. KIRK: No, we don't think there is any one formula to satisfy all kinds of contracts.

Mr. URIE: Do you think a rate book could establish this? This is one of the big difficulties with the finance companies. It is impossible to prepare a comprehensive ratebook to deal fully with this matter.

Mr. HURD: The Royal Commission on Banking and Finance think this is possible.

Co-Chairman Senator CROLL: You are speaking of the Porter Commission?

Mr. HURD: Yes, the Porter Commission.

Co-Chairman Senator CROLL: Not only do they think it is possible but they say in their report that the Coronation Finance is doing it.

Mr. HURD: We think it can be done and that it is being done.

Co-Chairman Mr. GREENE: But you recommend no specific form yourselves?

Mr. HURD: We have not studied the details, but we think it is a possible and practical undertaking.

Mr. KIRK: In a previous brief to you it was said that if a credit arrangement was of such complexity that when you make occasional purchases and these are added into the arrangement, and it is of such complexity that you cannot tell what interest is being paid, then, it is not a particularly good type of credit.

Mr. URIE: What is your answer to a proposition like this, which is from a booklet put out by one of the finance companies. It is explaining to their employees why it is undesirable that interest rates be furnished in addition to the dollar and cent amount.

If a department store makes an instalment sale involving an unpaid balance of \$30 repayable at the rate of \$10 per month, the simple interest rate would have to be 40 per cent per annum in order to obtain a nominal charge of \$2—probably less than it cost the store to handle the transaction. On the other hand, a \$10,000 mortgage on a home at the rate of only 5.75 per cent per annum will yield nearly \$9,000 in interest over a 25 year term. In terms of percentages, these differences are not apparent. In terms of dollars, they are absolutely clear.

What do you have to say about that particular situation, where it is quite a common thing that where the department stores have low balances it is possible the rates of interest will be high?

Mr. KIRK: Yes, but that is why it should be expressed both ways. We are not saying that if you set up a low loan there will not be costs involved. But if a consumer gets involved year after year in five or ten of those transactions, paying 40 per cent on some and 30 per cent on others, over a period of time very, very significant costs can be involved of which the consumer tends to be largely unaware under the present system. I can see that a store would perhaps prefer not to put on a piece of paper the cost of 40 per cent, but if the charges do amount to 40 per cent, then it is the responsibility of the store to explain to and convince the consumer that those charges are legitimate.

Mr. URIE: I agree with you. Have you ever had any complaints in your organization about a factor which apparently has bothered certain legislators, and that is the fact that sometimes the paper which is placed before an individual when he buys something on an instalment plan or conditional sales contract does not indicate that it is going to be sold and discounted with some finance organization? It is not made clear to him that he will no longer be dealing with the corner merchant, but with a large impersonal finance corporation. I may say there are certain bills presently before the House of Commons in which it is suggested that there should be embossed on the face of such a contract the fact that it will be sold or transferred.

Mr. KIRK: I think we should make a general answer to that, which takes us back to the question of the cooling-off period. We have not dealt as comprehensively as we would like with all these matters. The reason is, and I want to be frank, that as an organization we have many concerns and our people, with their many preoccupations, simply not been able to put the

amount of time into this to develop a comprehensive policy or obtain evidence on all these points. We would like to have time to do this, but we just haven't.

At the same time we haven't reached the level where we can say we are going to recommend this or that. Maybe 80 per cent of our people would approve, but we don't like to make recommendations that have not been put before the organization. While our principal concern is for the protection of consumers and the adequate handling of these credit problems, we don't have, and we have not tried to pretend that we have a specific policy or even information on all these questions. We well recognize from the number of private bills that have been before the House of Commons and the Senate, the existence of these problems, including the one in question where people think they have some kind of continuing responsibility to the man from whom they buy, and where they relate this to the fact that they owe him money, and then they find that they have no protection at all, and that the paper has been sold. We don't have a specific policy on that. What we can say is that our organization does feel that if inappropriate or dangerous or exploitive methods are being used, a broad explanation is necessary.

Co-Chairman Mr. GREENE: Can I conclude from your specific lack of concern that a farmer who is a rugged businessman and an individualist is less likely to be conned by an aluminum window huckster, or other persons of that nature, than a less illuminated suburbanite? Maybe you should not answer that.

Mr. URIE: A few minutes ago Mr. Greene asked you a question which I think might require a little elucidation. Firstly, you talked about these excessive interest rates, and you explained their excessiveness in terms of the cost to the borrower. Do you think there is any excessiveness in terms of profit to the lending institutions, or have you any information or thoughts on that subject?

Mr. KIRK: Again, we are back to the only evidence we have, namely, the report of the Royal Commission on Banking and Finance. That report indicates that the capitalization of loan companies is high in relation to that of other financial institutions, and we think that this does reflect on the fact that the charges made for the services they give tend to be high. However, the profitability of the operation is not the only criterion for judging whether interest rates are excessive. You know that you can have a low rate of profitability and a very wasteful and expensive type of service giving so far as the consumer is concerned.

Mr. URIE: In relation to that question, and also the one that Mr. Greene asked you a while ago, I would refer you to an excerpt from the report of the royal commission dealing with the desirability of removing the interest rate ceiling. I would like to have your comments on this for the benefit of the members of the committee.

Co-Chairman Senator CROLL: What is the page?

Mr. URIE: I am reading from page 364 where the commission says this:

The 6% interest rate ceiling introduces undesirable rigidity in the financial system and hampers and distorts the working of markets. It also has arbitrary effects on the institutions' competition for business and on their ability to serve the community well which were not contemplated when the ceiling was originally introduced and subsequently amended. We recommend that it be removed regardless of other changes in the legislation. The ceiling stands in the way of flexible lending by the banks in that it frequently prevents them from making loans on which higher rates must be charged to cover administrative costs and risks. Obviously, this is to the banks' disadvantage; more importantly, however, it discriminates against borrowers such as small businesses

which, if they are to obtain funds at all, must turn to other lenders which charge rates well above those the banks would ask if free to do so. As already noted, the banks have only been able to compete in the personal instalment loan market—in which they have substantially improved the facilities and lowered the average cost of funds—because the authorities have accepted what some might argue is a breach of the spirit of the 6% law. This, however, is not an argument for forcing the banks out of this business, but is instead one for amending an outdated law.

What are your comments with respect to the possibility that by removing the ceiling on interest rates you would have a tendency of lowering rates throughout the whole consumer credit field?

Mr. KIRK: I do not know what to think of the argument. I do not know exactly what the effects of it would be. That is what the commission says. Our position before that commission was that the 6 per cent ceiling should be retained, and related to that recommendation is our belief that on the whole there should be a general monetary policy which tends to lower the level of interest rates in the country. It is true, of course, that if, as a result of monetary policy and other causes, you have a high interest rate economy, and you have one section of that at a particular level, then it all has consequences in terms of the ability of a particular institution to compete. We are in favour of a policy in this country that tends to be on the lower interest side. That is my first point.

My second point is that I am not at all sure our people would feel—mind you, we have not even had an opportunity in our Board of discussing the report of this royal commission in detail, but I am not at all sure that they would feel that the banks should be regarded as just another financial institution competing in the same way in the whole field of credit. I think they would feel there is a place for a banking system which has a basic level of interest rates, and which is in the business of lending money as banks at the level of interest rates at which they lend now.

Mr. URIE: Without disagreeing with that conclusion, is it not likely that that very policy drives the banks to deny loans to customers who are greater credit risks, thus forcing them into the hands of others?

Mr. KIRK: It is possible, but to open up the field and allow banks to charge higher interest rates is not the only possible solution. Another direction in which to go is to partly improve it, as we are hoping will be done, through disclosure regulations, so that the borrowers will be better educated and fewer people will be forced into this area.

Another solution is in the direction of the possibility of getting new institutions that will give credit on a more satisfactory basis than the existing alternatives to the banking system.

Mr. URIE: Do you envisage those to be Government controlled, or are you thinking of privately owned institutions?

Mr. KIRK: Again, this is a field in which there is a growing concern in our organization about the need for new institutions and improved services related to them, that is, improved advisory services related to them in the intermediate and short-term credit field.

Mr. McCUTCHEON: The interest rate on Farm Improvement Loans is 5 per cent. I have heard it said that the Government requires so many forms to be filled in, and so much red tape, that the banks are not too keen on this type of business. Have you heard any reference to that? It has been said that if the interest rate were higher there might be more use made of the provisions of this act.

Mr. KIRK: It would surprise me to know that some of that \$365 million of other bank credit would not have been in the farm improvement loan field had the Farm Improvement Loans interest rate been higher. I am sure they would like to make 6 per cent rather than 5 per cent.

Mr. McCUTCHEON: And this indirectly, in your opinion, is having the effect of driving some of these people to other forms of borrowing—not directly, but indirectly?

Mr. KIRK: In the case of Farm Improvement Loans this might not be so. It might be a matter of distribution of the terms of the loans within the banks more than any other factor. The effect would be more in that area than as between the banks and other institutions altogether.

Mr. McCUTCHEON: I am not clear as to what you are saying there. Are you inferring that when a farmer goes to borrow \$5,000 under the Farm Improvement Loans Act, the bank manager says: "We have 27 government forms to fill in on this thing. I will lend you the money at 7 per cent as a straight bank loan." Is this what you are saying?

Mr. KIRK: Not at 7 per cent. They are required by law not to do that, as I understand it.

Mr. McCUTCHEON: Then, how do you account for the Bank of Commerce and some other banks in the consumer credit field charging an interest rate that works out at 10.9 per cent? Would you elaborate on that?

Mr. KIRK: The only way I know that they justify it—and this is what they say in the ads that I see in the bus when I go to work—is that it is composed of a 3 per cent service charge, plus interest at 6 per cent, plus a charge for insurance. I think there is life insurance on the loans. This is what they say in their ads, and I have no doubt that the service charge and whatever price they put on the life insurance aspect plus the interest rate of 6 per cent would come to 10.9 per cent.

Mr. CLANCY: I will go along with the idea that the service charge, the interest rate and the life insurance premium should be printed in bold black type. The insurance I am thinking of is on the life of the borrower so that in the event he dies the contract is fulfilled. That should be provided on all contracts. I know from experience that if you look at the service charges imposed on your own bank account you would very quickly go to the bank manager and kick a little about it. I think the general idea is a good idea, but are you suggesting a set interest rate? In other words, are you suggesting that there should be one interest rate, governed by law, right across Canada so that a lender could charge only so much interest?

Mr. KIRK: Are you asking if we suggest that?

Mr. CLANCY: Yes.

Mr. KIRK: We are suggesting that, as it has been provided for in the past under the Small Loans Act for those institutions. We have not suggested a regulation of the level of interest rates with respect to conditional sales agreements.

Mr. CLANCY: You are suggesting that every contract should have, not in fine print but in big bold letters, information to the effect that the service charge is so much, the interest is so much per annum, and all the other charges involved in the contract?

Mr. KIRK: We are suggesting a little more than that. We are suggesting that all these finance charges be translated into a simple annual interest rate and that that be applied to the whole terms of the contract, and that these two figures be put into the contract. I would like to emphasize this, because I think it is a good suggestion. There should be a standard form used for every finance

company, a form that is identifiable, so that over a period of time every farmer consumer, every time he is getting financing, would get the same form and he would recognize it. It would be the kind of form that farmers would be familiar with. It would not only have this information in the same place in the contract but it would be given on a standard form recognizable by all farmers.

Co-Chairman Senator CROLL: For the information of the committee, may I say the Province of Alberta, has that at the present time, and has had it for a couple of years.

Mr. URIE: It must be shown in ten point type.

Co-Chairman Senator CROLL: The contract is an appendix to the act. The contract would set out the total amount of the loan and the interest charges, as well as the service charges. It is exactly in line with what Mr. Kirk suggests but is in on a narrow basis.

Mr. CLANCY: It must be remembered that every salesman at present is getting \$40 for writing up a contract. That should be included also, so that they know what it is costing. After all, every car dealer who sells a car has to get his \$40.

Co-Chairman Senator CROLL: The \$40 is his commission. What does he get? Two per cent on the face value of the contract? If it is \$4,000, in effect he makes more on the financing than he does on the sale.

What you are saying, Mr. Clancy, is something that the evidence will bear out. We have not had it yet, but it is that the seller of a car earns more on the financing than he does on the sale.

Mr. CLANCY: That is quite possible.

Co-Chairman Senator CROLL: You said it is not only possible but you know your own figure. I gather you know the business.

Mr. CLANCY: This is a fact.

Co-Chairman Senator CROLL: It will be in the evidence later on, but I did not know that you were so aware of it.

Mr. CLANCY: I buy cars.

Co-Chairman Senator CROLL: I thought you sold cars.

Co-Chairman Mr. GREENE: We have not had too many car dealers volunteering to appear before this committee. Subpoenas may have to be issued.

Mr. McCUTCHEON: I do not think one can say that it is the automobile dealers who are taking advantage of the position in this country in this matter. I am a part-time car salesman myself.

Co-Chairman Senator CROLL: Automotives are very important to our economy.

Mr. NASSERDEN: Before we leave this point, it has been suggested more than once that these loans from consumer companies are high risk. I do not think we could assume that because today the people who are going to buy from these companies are on a payroll, there is not the risk that is implied. There may have been when some of these companies originated some years ago, but today they are all on a payroll. In cities like Montreal, Ottawa, Toronto or Saskatoon you go into one of these places and they take your payroll and have a look at it. It leads me to ask the Federation if they are familiar with the Home Improvement Loans Act of the federal Government. This is up to \$4,000 a year for the improvement of homes. Perhaps there is room within that act for an extension to cover not only improvement to buildings but also to appliances, furniture and things like that. It would be something on the same kind of basis as the Farm Improvement Loans Act, and so on.

Mr. KIRK: I was saying the other day it would be a good thing if they had just that. It might be a reasonable suggestion, but we have not given it any consideration.

Mr. NASSERDEN: I think it could be a useful piece of legislation, if it were extended in that way. People today are going to the revolving credit firms you have been talking about. They buy one appliance today, another in a month from now and another six months from now. If there were legislation setting out a set rate of interest—and there would be the payroll to guarantee it—there would be very little risk involved. There would be no more risk than under the Farm Improvement Loans Act.

Co-Chairman Senator CROLL: I have a report here, a copy of which was sent to you, Mr. Nasserden, but of course you do not carry your files with you whereas I do. This is a Government report. Mr. MacGregor sets out the practice under the Small Loans Act. This is mentioned here and I think we will discuss it in the light of this. It says:

Small Loans Act, December 31, 1962:

One or two months: total, 9.7 in 1960; 9.8 in 1961; 10.2 in 1962.

Two to three months: 3.7 in 1960; 3.7 in 1961; 4 per cent in 1962.

Three to four months: 1.9 in 1960; 1.9 in 1961; 2.1 in 1962.

Four to six months: 1.9 in 1960; 1.9 in 1961; 2 per cent in 1962.

Over six months: 3.5 per cent in 1960; 4 per cent in 1961; 4.1 in 1962.

That is the record. Is that high or low?

Mr. NASSERDEN: That indicates to me we are wrong in assuming there is a great risk involved in this type of transaction. When you consider the high rate of interest many of these people are assuming, that has contributed to part of the delinquency which some of those cases portray. If there were a reasonable interest rate that might not occur. In the case of some interest rates, if it runs for three years you are paying almost double, and you are pretty lucky if you can pay it.

Co-Chairman Mr. GREENE: I would like to clear the point which I think Mr. Nasserden was making with regard to consumer credit, separate and apart from anything specifically referable to farm operations. You are not prepared at this time to recommend that there should be specific Government legislation to afford the farmer credit on those lines?

Mr. KIRK: To afford credit as opposed to disclosures? No, we have no recommendation for improved credit facilities in that field.

Co-Chairman Mr. GREENE: In other words, you have no reason you can say as to why farmers at present should be preferred or have special legislation affording them credit over other consumers, with the exception of the existing schemes under the Farm Loan Board, the Farm Improvement Loans Act, with respect to specific operations?

Mr. NASSERDEN: I certainly was not suggesting that the farmer should have any preferred credit along that line. The Home Improvement Loans Act is open to every consumer in the country, in cities as well as in rural areas. That is why I mentioned it. It was something that is dealing with the broad field of consumer credit and has absolutely no reference to the farming situation.

Mr. KIRK: First of all, when we deal with the farming question, it does not by implication mean that we do not support anything outside that area. That would not be a fair inference at all. If there was any suggestion of that kind, I would like to clear it up altogether.

In the case of using the Home Improvement Loans Act for farm houses, the borrower gets involved in mortgages, tying up his assets through mortgages, in a way that the city borrower does not have to. It is more difficult to use. In the

same way, it is more difficult for a farmer to use the facilities of the C.M.H.C., and we have been concerned about this for some time. I would just like to make an observation in connection with this proposal. I am speaking still about Home Improvement Loans Act and its extension. It always strikes me as a fairly serious problem that young couples starting out with very heavy capital expenditures can get into an awful mess when trying to get established by making investments immediately, which they have to pay back from their earnings over a long period of time. If any means could be found to make this process easier, less expensive and more orderly, this would be mutually very helpful.

MR. URIE: I should like to get back for a moment to this question of maximum interest rate. I gather that you are not in favour of freeing the interest rate entirely. Are you in favour of raising the maximum, or do you feel, as I would, that in all likelihood industry would be driven up to that level, whereas if you had a free industry it might depress right across the border.

MR. KIRK: All I can say is that our recommendation to the Royal Commission on Banking and Finance—they have reported now, of course—was that 6 per cent be retained, and we gave the reasons I have given you. Our organization, since the report came out, has not had an opportunity to consider the validity of the argument put up by the Banking and Finance Commission.

MR. URIE: Are credit unions in existence for farmers?

MR. KIRK: Oh, yes.

MR. URIE: I notice the small percentage in the figures here—that borrowing from credit unions is .8 per cent. Does your organization take any active steps in organizing credit unions? You have recommended here that there be more.

MR. KIRK: We have members in our organization who are deeply interested in promoting credit unions, but they do this through cooperation with the Canadian federation. The small amount of credit union loans in connection with farm credit is, I think, largely a reflection of the fact that in many areas farm credit has not been the traditional field for credit union activities. There is a lot of re-thinking and examination going on in credit unions now with respect to policy, and perhaps encouraging a wider entry into the traditional intermediate credit field.

MR. McCUTCHEON: Do you not think that perhaps one of the limitations is the amount of money available to credit unions?

MR. KIRK: That has been a limitation, yes, but it has not been the only factor. Credit unions seem to have traditions in different provinces. For instance, it is lending in Saskatchewan, and I understand that it has savings in Quebec. I am not well informed on this subject; but there are all these factors.

Co-Chairman Senator CROLL: You are better informed than some of us, so please keep on talking.

MR. URIE: On page 12 you discuss the Small Loans Act, and you support the principle and direction of that act. However, you are opposed to, or not convinced of the unreasonableness of the half per cent provision on amounts between \$1,000 and \$1,500. You then work it out in the next sentence. I must confess that I cannot follow that.

MR. KIRK: The point we were trying to make was that under the Small Loans Act, on, say, a \$1,400 or \$1,500 loan, the maximum rate of interest is not half per cent on that loan, but that the maximum rate of interest is half per cent as long as it is still outstanding, on the amount between \$1,000 and \$1,500, and that in the first month of that loan the interest rate as charged on the \$1,500 in that first month is about 12 per cent; then it goes up from there by smaller amounts, admittedly, but when reduced to \$300, the interest rate is up to 24

per cent; so there is no loan made at half per cent in this simple sense of the word.

Mr. URIE: But we have evidence before us that the volume of loans between \$1,000 and \$1,500 is relatively small in relation to the others, purportedly because the interest rate in that area is so low. Have you any knowledge of this to indicate that your members have difficulty in acquiring loans from small loan institutions in that area?

Mr. KIRK: In any circumstances where the borrower could be persuaded to arrange his financial condition so that he could borrow on a little different basis, maybe borrow some now and a little more later, that the company would much prefer not to lend the same money at a higher rate of interest by arranging the staging of the loans, and so on. We do not find it too surprising that they are trying to arrange that. We think the ability to do that would be reduced if you raised the maximum at which half per cent should be charged. Now we only have to go \$1 over \$1,500.

Mr. URIE: You would suggest that the maximum lending be arranged at somewhere about \$1,500, and that the half per cent continue to be in force over \$1,000?

Mr. KIRK: On page 13 we pointed out that if the half per cent rate were introduced at the \$2,000 level, then the initial interest rate on the first monthly payment of a \$4,000 loan would be the rate of 9 per cent per annum, increasing regularly thereafter.

Mr. McCUTCHEON: It would be much more profitable for the company, instead of lending \$1,500, to lend \$300 five times?

Co-Chairman Senator CROLL: That is right.

Mr. KIRK: The only reason it is in a complicated way is that we do support the recommendation that it be not permitted to simply cut up a loan into pieces. I was saying that, to get around this, it would be a little more complicated than just making four loans.

Mr. URIE: At what level do you think the maximum amount to be loaned should be taken, Mr. Kirk?

Mr. KIRK: We would not quarrel, first of all, with that \$5,000 over-all for regulation of the interest rate; and our impartial judgment is that you might well take the area from \$2,000 up as the half per cent interest area.

Mr. URIE: And up to \$5,000?

Mr. KIRK: Yes.

Mr. URIE: Now, it has been said in evidence before us that one of the reasons for the high cost or high interest rates of consumer loan companies and sales finance companies is that they have a limited source of funds; and it has been suggested that if deposits were permitted to be accepted by those companies, that would have the effect of driving down interest rates. Have you any comments on that suggestion?

Mr. KIRK: No.

Co-Chairman Senator CROLL: By the way, you spoke of \$5,000. Mr. MacGregor did not share your view. He thought \$5,000 was a bit too high. He thought you took it out of consumer finance and moved into perhaps an intermediate field. He was quite adamant on that. Does that argument strike you as having some basis?

Mr. KIRK: I don't believe we thought about it particularly in terms of what field we are getting in. We thought in terms of how much interest you should charge on the loan.

Co-Chairman Senator CROLL: What you are trying to do is stop the "free ride" above the \$1,500 when it becomes free, and they can charge whatever the traffic will bear.

Mr. KIRK: That is right.

Co-Chairman Mr. GREENE: You have not defined in your thinking in your brief, as I read it, "consumer credit". You have no specific definition of "consumer credit" and you confine your brief to that premise.

Mr. KIRK: No, except that we did raise the point that we are concerned with farm financing for production purposes, that the act be so drafted it is defined as consumer credit, because it is retail purchasing in the very same context as people buy their consumer goods.

Mr. URIE: On page 8 you refer to Bill S-3 which is before the Senate at the moment, and you make some objection that that bill is not broad enough, in your paragraph 23. This is the definition of "personal property". I think the lawyers present would agree that the definition of "personal property" is applicable to practically anything which is not fixed to the ground. Have you any reason to suppose the type of borrowing the farmer would require would not be encompassed by that?

Mr. KIRK: We just wanted to be sure it was. We did not know.

Mr. URIE: One other question. In respect of this standard form of contract to which you have made reference, have you considered the question of the ability of the federal Parliament to legislate in that field?

Co-Chairman Senator CROLL: On page 10, section V, which is exactly where I am looking at the moment.

Mr. URIE: Yes, they raised the question, but have they sought and received any legal opinion as to the possibility?

Mr. KIRK: No, we have not.

Co-Chairman Senator CROLL: No, they are relying on you, as we are.

Mr. URIE: Thank you.

Mr. KIRK: It struck as being reasonable that it is within the federal jurisdiction, and that would be all right. But I realize this question can be more complicated than that.

Co-Chairman Senator CROLL: For the next meeting we have the Credit Union National Association. We have already heard the Ontario Credit Union League, and now we have the national organization.

On July 21, Mr. Urie will give us his resumé of the bills we discussed at the last meeting. We are not making any further plans thereafter; we are playing it by ear from there.

Co-Chairman Mr. GREENE: We thank Mr. Bentley, Mr. Kirk and Mr. Hurd for their fine presentation. Certainly, it is a well-considered brief of an organization representing a great number of people across the country. It will be extremely helpful to this committee in its deliberations, and we thank you for your very valuable contribution.

Mr. BENTLEY: Mr. Chairman, on behalf of the delegation, we were certainly pleased to meet with you to discuss these very important matters, and we appreciate the attention you have given to our brief and the questions you have asked.

The committee adjourned.

APPENDIX "C"

SUBMISSION

BY

THE CANADIAN FEDERATION OF AGRICULTURE

TO

THE SPECIAL JOINT COMMITTEE OF THE SENATE

AND THE HOUSE OF COMMONS

ON

CONSUMER CREDIT

July 7, 1964

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Summary of Conclusions and Recommendations

1. The Canadian Federation of Agriculture, a national general farm organization widely representative of farm people, holds the conviction that there has been a clear-cut need for legislative action to protect the public interest in the consumer credit field, and that there has been an undue delay on the part of our elected representatives in meeting this need.

2. The Federation is encouraged by the appointment of the Joint Committee of both Houses of Parliament to enquire into this subject, and urges the Committee to "clear the decks" for appropriate legislative action.

3. Farm people, as purchasers of both consumer and production goods and services on credit, are very much concerned with the subject of the Committee's enquiry.

4. This concern has been reflected in resolutions passed at recent annual meetings of the CFA, calling on the Government to pass finance charges disclosure legislation and to limit interest rates charged by finance companies to reasonable levels.

5. The nation's farm organization recognizes that buying on credit has become a well established practice in the Canadian economy, and that there are legitimate interest charges and other costs associated with providing the financing of purchases on credit. Notwithstanding, it thinks consumers have a right to know in advance of entering into a credit transaction the real level of finance charges involved, expressed in both dollar amounts and simple annual interest rates, and that consumers are also entitled to reasonable protection from excessive charges and exploitation at the hands of those providing credit services.

6. The kind of finance charges disclosure legislation that the CFA is advocating would be similar in intent to that which has been introduced a number of times in the Senate by Senator David Croll. The submission outlines briefly the provisions of such legislation, the reasons for them, and the benefits which would be expected to result from the passage of such legislation.

7. The submission suggests that an appropriate department of government be charged with the responsibility of administering such legislation, and it makes two specific proposals with respect to administrative duties. First, it is suggested that the administration would issue an official standard form for finance disclosure purposes which would be so designed as to set out simply and clearly the required information, and that this form would be required to be used and attached as one of the documents in every transaction involving consumer credit. Second, it is suggested that the administration also issue interest rate and finance charge books, so the finance companies, retail stores and dealers would not have to make the complex calculations of interest rates themselves.

8. Farm people have an occupational as well as a consumer interest in credit financing. The submission records the fact that a large portion (40% in 1961) of the total amount of credit extended to farmers annually is supplied through farm machinery and supply companies of various kinds. The limited information available on interest rates on such operating credit suggests that it often exceeds 16%.

9. The CFA believes that farm people, who as a group are good credit risks, should not have to pay finance charges at the rate of 16% or more for short term operating credit. It maintains that such interest rates are excessive and reflect a serious deficiency in the farm credit system. It suggests that while finance charges disclosure legislation, if applied to such transactions, may not provide the complete answer to the problem, it would have a salutary effect.

The Federation recommends the Committee give consideration to having the finance charges disclosure legislation apply to farm supply and machinery companies, as well as to companies extending consumer credit.

10. The submission briefly outlines the arguments advanced in opposition to the passage of finance charges disclosure legislation and finds them wanting.

11. The Federation of Agriculture expresses its pleasure that the Royal Commission on Banking and Finance has firmly supported continuation of effective controls, through the Small Loans Act, on levels of interest rates charged by loan companies.

12. The organization challenges, however, the need to completely abandon the $\frac{1}{2}\%$ per month maximum limitation now imposed in the Small Loans Act on amounts between \$1,000 and \$1,500 as the Commission proposed. The Federation recommends instead that this interest limit be retained with perhaps some adjustment upwards of the level at which it is introduced, i.e. at say \$1,500 or \$2,000. The CFA also strongly recommends that the maximum size of loans to which the Small Loans Act applies be raised from \$1,500 to at least \$5,000.

Canadian Federation of Agriculture Submission

I. Introduction

1. The Canadian Federation of Agriculture is particularly pleased about the establishment of this Joint Committee of both Houses of Parliament. Our organization welcomes this opportunity to place its views on consumer credit before you.

2. Neither of these introductory statements are made lightly. Our pleasure at seeing the Committee formed arises out of our conviction that there has been a clear-cut need for taking legislative action in the consumer credit field for a number of years, and an undue delay on the part of our elected representatives to act to meet this need. We hope and anticipate that the study and recommendations of this Committee will clarify the Federal and provincial jurisdictional responsibilities related to consumer credit, and will pave the way for prompt legislative action in this field at the Federal level.

3. The Federation welcomes this opportunity to be heard, because we have had a strong mandate from our membership for several years to press for finance charges disclosure legislation along the lines introduced in the Senate a number of times by Senator David Croll, and, in addition to urge the Government to enact legislation to limit interest rates charged by finance companies to a reasonable level. This hearing of the Committee gives us a chance to add our support to those segments of the Canadian society which have been expressing, through their organizations, similar views and urging similar action.

4. The Canadian Federation of Agriculture is, of course, the national, general farm organization in this country. Its structure is designed so as to provide a place within its policy-making procedures for representatives of all bona-fide organizations of farmers. Its objective is united action by farmers directed toward the achievement of self-help and government policy in the best interests of our farm people and the nation as a whole. The CFA is primarily a federation of provincial federations of agriculture, and national commodity associations. It embraces within its membership the federations of agriculture in the four western provinces, in Ontario and the Maritimes, as well as the farm organizations in Quebec (L'Union Catholique des Cultivateurs, Co-operative Federee, and the Quebec Farmers Association), Dairy Farmers of Canada, United Grain Growers Limited and the Canadian Horticultural Council.

5. The Federation is thus widely representative of farm people. It speaks on their behalf in social and economic matters pertaining to their occupational

role, as well as their role as citizens. In relation to consumer credit, and what is done about it, farmers have a double-barrelled interest. They are purchasers of consumer goods and services like all other Canadians, and they are, as well, substantial buyers of production goods (machinery and farm supplies) and services used in connection with their farming operations. In both cases, financing such purchases on credit has become an increasingly common practice, and may quite often be a necessary one. Hence, farmers can and do become very much involved in the subject of your enquiry, and in many instances they have more than the usual amount of concern about sources of credit and the interest rates being charged.

II. The Federation's Policy Position

6. Inasmuch as the resolutions passed at the recent annual meetings of the Canadian Federation of Agriculture on the subject before you clearly indicate the thinking of farm people, we quote them verbatim.

7. At the 1962 CFA annual meeting held at Banff, Alberta, the delegate body considered and approved these two relevant resolutions:

Disclosure of Finance Charges

RESOLVED that the CFA urge the Federal Government to pass legislation which will require money-lending institutions to declare their true rates of interest, and that the CFA urge all farm and co-operative organizations to request their Senators and Members of Parliament to support this request, and

FURTHER, that the CFA commend Senator Croll for the efforts he has made in this regard.

Limiting of Interest Rates

WHEREAS interest rates charged to borrowers by finance companies are in fact usury;

RESOLVED that the CFA urgently request the Government to strictly limit these rates to a reasonable level and that the true interest rate be stated in the contract.

8. At the 1964 CFA annual meeting held in Charlottetown in January, the delegate body re-endorsed its stand in this resolution:

WHEREAS many think there is insufficient information provided regarding the rate of interest and other charges on loans; and,

WHEREAS many think these rates are excessive;

RESOLVED that governments be asked to enact legislation to make it obligatory for any company making loans to state clearly the rate of interest per annum and other charges.

9. These expressions of concern and of the wishes of farm people are quite clear. They are alarmed at the rates of interest charged in Canada by finance and other companies for consumer and production credit, and the apparent abuses that exist in this field. Such interest rates are often not only excessive, but are surrounded by such mystery insofar as many consumers are concerned that unwise and damaging purchases are made by people who cannot really afford them.

10. The Federation recognizes that buying on credit has a well established place in the Canadian economy, and that there are legitimate interest charges and other costs associated with providing the financing of purchases on credit. Notwithstanding, we think consumers have a right to know in advance the real level of finance charges (expressed in dollar amounts and in simple annual interest rates) on the transactions in which they might become involved, and the right to reasonable protection from excessive charges.

III. Nature of Finance Disclosure Legislation

11. As has been mentioned, the Federation has supported the enactment of finance charges disclosure legislation similar in intent to that introduced in the Senate by Senator David Croll a number of times, and currently as Bill S-3.

12. Under this Bill it would be required procedure for every person who carries on the business of extending consumer credit to disclose to the customer, before the transaction is complete, in a clear statement in writing: (a) the total amount of the unpaid balance in the transaction; (b) the total amount of the finance charges to be borne by the consumer in the transaction; and (c) the percentage relationship, expressed in simple annual interest, that the total amount of the finance charges bears to the unpaid balance.

13. In addition, the Croll Bill provides that the Governor in Council may make regulations prescribing: (a) the form and manner in which finance charges disclosure statements would be made available to the prospective consumer; (b) the method to be used in calculating the simple annual interest rate in consumer credit transactions; and (c) the degree of accuracy which would be required in the calculation of the interest rate.

14. It is our conviction that an appropriate department of the Government should be charged with the responsibility of administering such legislation. We suggest that one of its duties would be to issue an official standard form for finance disclosure purposes which would be designed to set out simply and clearly the required information, and that it would be required that such a form be used and attached as one of the documents in every transaction involving credit. In this way, such a form would soon become a well known feature of all retail credit transactions involving consumers, attention would be focussed on the finance charges in a particularly effective way, and the problem of determining what is a clear statement of finance charges, and ensuring its use would be greatly simplified.

15. We further suggest for your consideration that the administrators of the proposed finance charges disclosure legislation be responsible for issuing interest rate and finance charge books, so that finance companies and retail stores and dealers would not have to do the calculations of interest rates themselves. We believe this would help to overcome some of the criticisms of the proposed legislation which we will be discussing later.

16. Such finance charges disclosure legislation would, in our view, achieve these purposes:

It would go a long way in protecting the small borrower from possible exploitation in credit transactions through lack of knowledge and/or adequate information.

It would make a considerable contribution to more general public understanding of the cost of credit, which should, in turn, lead to more and more people abandoning their reliance on credit sources that charge excessively high rates, and result in a healthy reduction in the unwise use of credit.

It would provide the consuming public with a standard means with which to compare the cost of financing purchases of goods or services offered by competing firms through credit sales contracts. Such comparisons could lead to a greater degree of competition in the consumer credit field, thus exerting a downward pressure on unduly high finance charges.

17. Finance charges disclosure legislation so far proposed refers to disclosure for credit extended in connection with sales transactions. This is of course where the greatest need is. Nevertheless, even with personal cash loans from banks and finance companies, the borrower is faced with some of the

same problems in knowing what the simple annual interest rate is that he is paying for the use of money. We see no reason why disclosure of total charges and simple annual interest rate should not be required also for banks and loan companies, on the same standard form used for conditional sales transactions and other sales financing. The borrower would in this way be even better equipped to compare interest charges, and the competitive situation would be improved.

IV. Farm Operating Credit

18. Farm people, as we mentioned earlier, have an occupational interest as well as a consumer interest in credit financing. In the successful operation of farms today, a good deal of short and intermediate term credit is required for operating purposes. This demand for operating credit has been increasing with the increasing size of farms, and with the increasing purchases and use of off-farm inputs, such as fertilizer, pesticides, gasoline, oil, machinery and equipment and feed. Because of the nature of their business, the seasonality of production and sales, many farmers find it difficult to pay cash for such off-farm inputs, and are forced to arrange for credit financing, either through the banks or credit unions, or through the supply companies themselves.

19. Farm credit statistics in Canada have been piecemeal and incomplete. However, a recent study made by Dr. R. S. Rust of the Economics Division of the Canada Department of Agriculture, and published in the February, 1963 issue of "The Economic Annalist", gives the best overall picture of the sources, volume and interest rates on farm credit that is available. We should like in particular to draw your attention to the accompanying table which we reproduced from the study.

FARM CREDIT EXTENDED AND OUTSTANDING, 1961

Source of credit	Amount of credit extended, 1961	Amount of credit outstanding 1961	Per cent of total outstanding	Estimated average interest rate
- millions of dollars -				
LONG TERM				
Provincial governments.....	38.1	182.7	10.1	3.1
Federal government.....	89.0	305.5	17.0	4.9
Life insurance, loan and trust companies.....	4.9	20.0	1.1	7.8
Private individuals.....	31.5	315.3	17.5	5.0
Railway and land companies.....	0.0	1.8	0.0	6.0
Provincial Treasury Branches (Alta.).....	1.9	1.0	0.0	5.5
INTERMEDIATE TERM				
Banks (Farm Improvement loans).....	108.1	193.8	10.8	5.0
Credit Unions.....	5.0	15.0	0.8	9.0
Private individuals.....	20.0	50.0	2.8	5.0
SHORT TERM				
Banks (other than F.I.L.A.).....	345.0	290.7	16.1	6.0
Provincial Treasury Branches (Alta.).....	9.5	6.3	0.3	6.0
Credit Unions.....	64.9	60.4	3.4	9.0
Private individuals.....	3.0	3.0	0.2	5.0
Storekeepers, dealers etc.....	23.8	23.8	1.3	N.A.
Feed companies.....	125.0	52.0	2.9	N.A.
Machinery companies.....	235.0	235.0	13.0	N.A.
Fertilizer companies.....	43.5	10.9	0.6	N.A.
Agricultural chemical companies.....	14.0	3.6	0.2	N.A.
Oil companies.....	30.0	3.0	0.2	N.A.
Companies providing credit for farm improvement purchases.....	60.0	30.0	1.7	N.A.
Total estimated credit.....	1,250.3	1,802.5	100.0	

20. As you will observe the estimated total amount of farm credit extended during 1961 was \$1,250.3 million, and the amount of farm credit outstanding in 1961 was \$1,802.5. A large portion of these amounts is attributable to short term credit extended to farmers by machinery and farm supply companies of various kinds. Taken together, these companies extended \$507.5 million or nearly 40 per cent of the total amount of farm credit extended in 1961, and had at year's end some \$334.5 million of credit outstanding with farmers.

21. The table shows the average interest rate being charged by these companies to be "Not Available". The author of the study explains the reason in these terms: ". . .the interest charges on trade credit cannot be adequately estimated since these charges may be incorporated into the purchase price of products or take the form of discounts when payment is made before a specified date. The rather scanty information now available suggests that actual interest rates on trade credit may often exceed 16 per cent."

22. It is the view of the Canadian Federation of Agriculture that farmers as a group are good risks and that they should not have to pay as high as 16 per cent interest on such short and intermediate term operating credit. A farm credit system that leads to this level of interest rate for operating credit is seriously deficient, and something needs to be done about it. We are inclined to think that many farmers are unaware of the real costs to them of their short term financing arrangements, and that while finance charges disclosure legislation isn't the complete answer to the problem, it would certainly contribute to the solution. It would serve, in our view, the same purposes as were outlined previously in discussing consumer credit, and, in this case as well, it would serve to impress upon farm borrowers the advantages of meeting their short term credit needs through credit unions and the banks.

23. The Croll bill to which we have referred speaks of "Canadian consumers" and the finance charges on their "retail purchases". In the definition clause, the grantor of credit is described as a "credit financier" which means ". . .any person who in the ordinary course of his business. . . enters into a transaction with another person arising out of a sale or agreement of sale of personal property to such other person. . ." It would appear to us that as the wording of the bill stands at present there is a great danger that it would not require companies extending short term credit to farmers for production and operating purposes to disclose their finance charges. We submit that farming enterprises are unlike many other types of business, because farmers must buy their off-farm inputs at what, in effect, is a retail level of distribution. The Canadian Federation of Agriculture therefore proposes that this Committee strongly recommend that finance charges disclosure legislation apply to farm machinery and supply credit transactions with farmers, as well as to consumer credit as more narrowly defined.

V. Opposition to Disclosure

24. In previous debates on this subject a number of arguments have been advanced in opposition to finance charges disclosure legislation. The Federation does not find these arguments very convincing, and we would like to take this opportunity to tell you why.

25. First, the argument has been presented that it is too difficult and there is too much room for error in making a calculation of interest where there are instalment payments and the principal is being liquidated monthly over a period of time. This is in conflict, at least in part, with the view of the Royal

Commission on Banking and Finance. It stated when discussing this subject in its report:

... Different methods of calculation yield slightly different results, but there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so: comparability is more important than the precise level. While we recognize there is great difficulty in calculating the exact charge if use is made of revolving credit, there is no reason why the customer cannot be shown the effective charge if he follows a typical plan...

26. In our judgment this amply refutes the argument. The fact is that very few consumers indeed, who need credit financing, have the knowledge to make "on-the-spot" calculations of true interest rates. It is precisely because the calculations of interest rates can be difficult and the mathematics so little understood that the consumer needs the protection of disclosure legislation.

27. Second, there are those who have suggested that the solution to the problem of excessive finance charges is for the individual consumer to shop around for the best credit terms he can get. Again we submit this is not a valid position to take. As we have already pointed out there are a large number of people who would not be in a position to decide on who was offering the best terms as matters stand at present. The wide variation in the existing interest rates on consumer credit, as reported in the Report of the Royal Commission on Banking and Finance, would seem to support this contention. Without adequate finance charges disclosure legislation, consumers generally are unable to protect their own interests.

28. Third, there are others who simply say, "Let the buyer beware". Some are a little more discrete and say that it is not the responsibility of the state to protect people in this way—people must look out for themselves, and if they get stung, it is their own fault. However, they mean the same thing. Frankly, we cannot accept this attitude. There are ample precedents in legislation to protect the public. In this case all that would be required is clear and straight forward information, and in a field where, with the best will in the world, such information is hard to come by.

29. Fourth, the Royal Commission on Banking and Finance has effectively dealt with still another argument against disclosure legislation in these words: "Nor are we impressed with the argument that requiring disclosure would raise the cash price of an article, and thus lead to concealment of the effective interest rate. We believe that, as now, effective competition will keep the cash price at realistic levels, but in order to protect against the possibility of merchants using inflated cash prices for the purpose of calculating interest, the Act should contain a provision that the price of the article must be that at which cash transactions are normally carried out..."

30. Fifth, of course, is the argument as to whether or not finance charges disclosure legislation comes within the jurisdiction of the Federal Government. In the distribution of legislative powers under The British North America Act interest is one of the classes of subjects which is assigned to the Parliament of Canada. We find it difficult to believe in view of this that adequately drafted Federal legislation to require disclosure of interest rates is not legally sound. The Federation thinks it would be very unfortunate if arguments over the constitutional position were allowed to delay the passage of finance charges disclosure legislation at the Federal level. It is our view that the Committee should make a judgment on this question, and proceed to make its recommendations in the light of that judgment.

VI. Limiting Interest Rates

31. In the resolutions already quoted to you, and in the Canadian Federation of Agriculture's submission to the Royal Commission on Banking and Finance, farmers have made clear both their dislike of usurious rates of interest, and of their general view that the level of interest rates in our economy should be on the low rather than the high side. We opposed, for example, an increase in the maximum limit on bank loan rates.

32. We are aware of the view of the Royal Commission on Banking and Finance that the limitations on interest rates and types of lending by banks have in fact resulted in a distorted market that has in effect forced recourse by many borrowers to other finance agencies at higher interest rates than are necessary. These and other recommendations of the Commission are important and far-reaching ones that must be given the most careful study by all concerned, and we are not prepared at this time to discuss the report in any detail, although it clearly has very great implications for consumer financing.

33. We would only like to register our preliminary feeling and concern over a direction of policy away from controls, limitations and guarantees on interest rates. We are by no means sure that this is a good direction to follow. In the Farm Improvement Loan program, in the Farm Credit Corporation and in various provincial acts guaranteed loans and limited rates of interest are provided for, and we think these are healthy and valuable to the farm economy. At the same time it is clear that large amounts of credit at what we consider excessively high rates of interest are being extended to farmers through sales transactions. As long as this situation exists all possible avenues to its correction must be pursued, including education, finance charges disclosure legislation, development of the credit union movement and perhaps the development of new short term and intermediate agricultural credit institutions.

34. Much of this is in the future, and attention to the problem is urgently required. In the meantime we are very glad to see that the Banking and Finance Commission has firmly supported continuation of effective controls, through the Small Loans Act, on levels of interest rates charged by loan companies. The Commission believes that all cash lenders, including the banking institutions, should be subject to uniform regulation. It states that it would be desirable to raise the maximum size of regulated loans from the \$1,500 now established in the Small Loans Act to at least \$5,000, in view of the substantial amount of individual borrowing which is now above this regulated limit. It expresses the view that the present maximum charges of 2% per month on the first \$300 owing, and 1% on amounts owing between \$300 and \$1,000 are not unreasonable, but that the maximum rate of $\frac{1}{2}$ % on amounts between \$1,000 and \$1,500 is too low and simply prevents most companies from lending amounts between \$1,000 and \$1,500. The Commission suggests that a maximum of 1% per month on all balances from \$300 to \$5,000 might be more appropriate.

35. The Commission further suggests that the law should contain features designed to prevent extortionate charges by the writing of several small contracts for under \$300 rather than one for the larger sum required.

36. The Commission would also like to see the time feature of the present Small Loans Act retained. This provides for somewhat lower rates on longer term contracts, these being cheaper to administer.

37. The Federation solidly supports the principle and direction of all these recommendations, including the thought that the definition of Small Loans should be extended to larger maximum sums. However, what it all boils

down to, as the Commission recommends it, is that the maximum rate is upwards of 12% per annum, except for amounts under \$300 for which it is 24%. We are not convinced of the unreasonableness of the $\frac{1}{2}\%$ provision in principle, since it is not $\frac{1}{2}\%$ on all of a loan, but only $\frac{1}{2}\%$ on part of it. It must be remembered that, the way the present Act works, the interest rate for the first month on a \$1,500 loan is, applied over the whole of the amount, not $\frac{1}{2}\%$ but actually just over 1%, or 12% per year, and it rises monthly by a little after that to a maximum of 24% per annum at the last. (This is not true if the repayment period is more than 30 months, in which case the limit of the rate is 1% on the unpaid balance throughout the term of the loan.)

38. The considerations here are of course three:

First, the cost of money to the loan company.

Second, the cost of administering loans.

Third, the cost of losses for bad debts and for collection of debts from poor payers.

39. We submit that on loans of considerable amounts (for example over \$2,000) that 12% per annum is more than should be charged. If the loan company takes high-risk borrowers that put his costs up to where he must get this kind of return, then the best answer is probably to refuse loans to such persons.

40. It may well be that under present conditions the stage (\$1,000) at which the $\frac{1}{2}\%$ rate is introduced under the Small Loans Act is too low. This might be raised to \$1,500 or \$2,000. But the $\frac{1}{2}\%$ limit should be retained. To make another simple calculation: If the $\frac{1}{2}\%$ rate were introduced at the \$2,000 level then the initial interest rate on the first monthly payment of a \$4,000 loan would be at the rate of 9% per annum, increasing regularly thereafter. What the actual rate of interest realized over the whole term of the loan would be is of course a little difficult to calculate (here is another argument for disclosure provisions for loan companies) but would be well above 9%.

41. Our recommendation is that the $\frac{1}{2}\%$ limitation provision be retained in the small loans legislation, with perhaps some adjustment upwards of the level at which it is introduced. We strongly recommend at the same time that regulation of interest rate be introduced for loans up to at least the \$5,000 level under the Act.

Respectfully submitted,

The CANADIAN FEDERATION OF AGRICULTURE



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON

CONSUMER CREDIT

No. 6

TUESDAY, JULY 14, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

WITNESSES:

Credit Union National Association: Mr. Robert Ingram, Manager, Canadian Operations. Mr. Robert Davis, League Legislative Specialist.

APPENDIX

D—Brief from the Credit Union National Association

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard	Lang	Smith (<i>Queens-</i>
Croll	McGrand	<i>Shelburne</i>)
Gershaw	Robertson (<i>Kenora-Rainy</i>	Stambaugh
Hollett	<i>River</i>)	Thorvaldson
Irvine		Vaillancourt—12.

Messrs.

Bell	Greene	Matte
Cashin	Grégoire	McCutcheon
Chrétien	Hales	Nasserden
Clancy	Irvine	Orlikow
Côté (<i>Longueuil</i>)	Jewett (Miss)	Pennell
Crossman	Macdonald	Ryan
Deachman	Mandziuk	Scott
Drouin	Marcoux	Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté, (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss),

Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honour thereof."

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—
That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommends:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, July 14th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*) and Stambaugh, and

House of Commons: Messrs. Greene (*Joint Chairman*), Bell, Chrétien, Clancy, Drouin, Miss Jewett, Messrs. Macdonald and Mandziuk—10.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Bell, it was Resolved to print the brief submitted by the Credit Union National Association as appendix D to these proceedings.

The following witnesses were heard:

Credit Union National Association: Mr. Robert Ingram, Manager, Canadian Operations. Mr. Robert Davis, League Legislative Specialist.

At 12.05 p.m. the Committee adjourned until Tuesday, July 21st, 1964, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, July 14, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10:00 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

A motion was adopted that the brief prepared by the Credit Union National Association on consumer credit, dated July 14, 1964, be printed as part of the minutes of the committee meeting.

(See Appendix "D")

Co-Chairman Senator CROLL: We have before us today representatives of the Credit Union National Association. We have Mr. Robert Ingram, Manager of Canadian Operations, and with him Mr. Robert Davis, League Legislative Specialist. I shall ask Mr. Ingram to speak on behalf of the association.

Mr. Robert Ingram, Manager Canadian Operations, Credit Union National Association: Mr. Chairman, ladies and gentlemen: First of all, I want to express to the co-chairmen and to the members of this committee the gratitude and thanks of the Credit Union National Association for making it possible for our organization to appear before you this morning, to present to you some facts and figures and some feelings and impressions that we have with regard to the matter which this committee is charged to examine. We are very appreciative of this opportunity to explore with you, if you will, some of the ramifications of consumer credit as it applies to our organization and its individual member credit unions.

Ever since your good Co-Chairman Senator Croll introduced his first bill—I believe it was back in 1959—and not only his bill but other bills of a similar nature which have been presented either in the House of Commons or in the Senate, the Credit Union National Association has expressed very keen interest in all legislation of this type.

Since we are, of course, a type of organization which is based on serving our membership's savings and loan needs, we are vitally interested in any kind of legislation which will benefit the average consumer or his family. Consequently, we have always expressed very keen interest in these various bills as they have been presented, either in the House of Commons or in the Senate from time to time. For that reason, we are very happy finally to get the opportunity of meeting with the committee and discussing any ramifications or any aspects of the legislation as it is or as it may appear and as it affects our organization.

Some two weeks ago the committee heard from one of our very valued members, the Ontario Credit Union League. They submitted a very fine document to the committee, and discussed the credit union movement as it applies to that section of the credit union movement in Ontario. We propose this morning to enlarge, perhaps, on this aspect and possibly give a broader pic-

ture than that of simply one province, although the Province of Ontario is our largest member as far as Canada is concerned.

We have filed with the committee also a statistical summary, our CUNA Yearbook, which came off the press quite recently, and perhaps the members have not had an opportunity to examine it in any kind of detail. Quite frankly, I have not either. For that reason, I trust you will forgive me if, when some questions are asked, I take a minute or two to check. This is a brand new publication; it is the 1964 Yearbook, just off the press.

We have also provided for the benefit of the committee what we call a services guidebook. Both of these booklets are for the prime purpose of saving the committee's time in sessions such as this.

We had purposely made our brief short, concise and, we hope, compact and interesting for you. We did not go into too much detail as to the historical references, the organization of credit unions, and such, because we feel this is the kind of exploration work you can do at your leisure and convenience. What we have done is very briefly to sketch for you the purposes of credit unions, why they were organized, and how they came about as organized in Canada; a little about their growth and how they fit into the Canadian economy as such. We hope this morning we shall be able to clarify any particular questions you may have in mind.

Also appended to our brief is a summary or an analysis of a similar type of legislation in the United States, the Douglas bill. We have made a very thorough analysis of that bill in part of the brief for your information.

In addition, we have filed what we consider a model disclosure act, which is also in the back of the brief. This is simply a guide to the various provincial and state leagues which make up the membership of CUNA, which they may use to inform themselves or to guide themselves as to the kind of disclosure legislation the organized credit union movement supports in this particular sphere of activity.

We have always felt very strongly that consumers, whether credit union members or not, are entitled to know the true cost of credit, both in dollars and cents and in percentage, so that they may intelligently shop around for credit in the same way as a woman may shop for a dress or a man may shop for a car, or any other durable commodity. We have always felt very strongly in this direction that the average person does not know, particularly in today's myriad of publicity and advertising, what he is faced with. It is simply a jungle of interest rates and costs and other charges, and he is not capable, unless he wants to make a study of the subject, of buying intelligently on a spontaneous basis. Yet this is the way most of our people today seem to buy; they simply want a particular article and buy it, and feel that as long as they can pay a reasonable amount on a monthly or weekly basis, or whatever it is, that they can afford this particular article. We feel, and we have file after file of evidence to support our feeling, that people today, either through ignorance or lack of interest, are certainly not shopping for credit the way they shop for other durable goods. We have devised some tools to help our members to realize what credit costs them, and we are constantly putting out literature and other media for their benefit. We disclose on our promissory notes the interest rate that credit union loans are subject to, that is, the maximum of one per cent a month on the unpaid balance, so that our members can clearly understand the percentage rate they are paying for their particular loans.

In many of our credit unions, primarily in rural areas, where the interest rate charge is one half of one per cent, or somewhat less than one per cent, borrowers are not normally given the benefit of what we call a patronage refund of interest each year, which most of our industrial credit union members reap the benefit of. You heard some evidence of this kind of activity

within the movement of the Ontario league, only a couple of weeks ago, so I will not elaborate on that at this time.

I should point out that the CUNA policy is a worldwide policy, incidentally of a uniform interest rate. We feel that all borrowers should be treated alike, with the maximum interest rate of one per cent per month on the unpaid balance. Our purpose here this morning is not to make a plea for any such maximum interest rate as such. We are quite aware of the fact that many other financial institutions charge in excess of this rate. In a sense, this is their problem, as long as we do not consider it usurious. I presume this committee will hear from them at some future date.

What we are concerned about, and what we want to impress upon this committee, is that we are concerned that the people know in terms of dollars and cents, and in terms of a uniform interest rate, what their credit costs are, so that they can then intelligently shop, whether through the various credit unions, or the banking industry, or what have you, and make an intelligent decision as to which source of credit they will use.

This is the object of our presentation, Mr. Chairman, and we have filed a brief with the committee and also with yourself. I do not propose to read it unless you desire me to do so. I simply want to point out to the members of the committee here that we have three basic recommendations contained in our brief itself, which I will now read:

- (a) that extenders of every kind of credit be required to disclose in writing to prospective borrowers both the total cost in dollars of the credit to be extended and the rate in terms of simple annual interest;
- (b) that all advertising by credit extenders give full details of the total costs in dollars and in terms of per centum per annum;
- (c) that victims of unconscionable transactions be granted redress by the courts, and those who have exacted the unjust terms be penalized under the law.

Those, Mr. Chairman and ladies and gentlemen, are very simply and briefly the objects of the Credit Union National Association and its member leagues and credit unions.

Our organization represents some 30,000 credit unions on a world wide basis, with some 19 million members, and with accumulated assets of over \$10 billion. These are all working in the field, primarily concerning consumer credit, in an attempt to make the way of life of our members better than it possibly otherwise would be.

Co-Chairman Senator CROLL: What are the figures for Canada?

Mr. INGRAM: In Canada the number of credit unions is now 4,622, with a little better than three million members, and very close to \$2 billion of assets. These figures, incidentally, are contained on the first inside cover of this Yearbook which has been provided for the members of this committee.

Co-Chairman Senator CROLL: Yes, I see that.

Mr. URIE: Does your organization include caisses populaires?

Mr. INGRAM: No, it does not, with some few exceptions. In the provinces of Canada other than Quebec, there are small pockets of caisse populaire groups, which for the most part are members of the provincial leagues, but the largest one, the Desjardins Federation of Quebec, is not. Most of the other caisse populaire groups are members of the provincial organization.

Mr. URIE: So that these assets shown here do not include the caisse populaires, with those few exceptions?

Mr. INGRAM: Yes, they do.

Mr. URIE: Oh, they do include them?

Mr. INGRAM: Yes. The Yearbook, Mr. Chairman, ladies and gentlemen, does not include just the affiliated members of the movement. This, to our knowledge, is all of the credit unions and caisses populaires operating on a word-wide basis, whether they are affiliated or not.

Mr. URIE: What is the purpose of your organization?

Mr. INGRAM: Our purpose, basically, is a two-fold one, and has been since 1900 when Alphonse Desjardins organized the first one in North America. It was then and is now: to find a way of teaching people to save on a systematic and regular basis; and to promote a program of thrift among themselves and to provide for themselves a source of low-cost convenient credit.

Mr. URIE: I was thinking more of the national association.

Mr. INGRAM: Of our organization?

Mr. URIE: Yes.

Mr. INGRAM: Our organization is an international one, and I am the Canadian manager of it. Our prime purpose is to work with provincial and state leagues of other countries in the world, to provide them with various tools of the trade, if one may use that expression, to enable them to do a better job. We provide a complete bonding program for all officers of credit unions. One of our affiliated organizations provides insurance coverage for the borrowers and savers. Another one of our affiliated organizations provides all the operating forms, passbooks and so on, that our members use. We are constantly conducting schools and conferences to train the directors of our credit unions to do a better job. They may be officers who conduct the policies of credit unions.

Mr. URIE: Your organization actually bonds the employees of various credit unions?

Mr. INGRAM: Yes.

Mr. URIE: Have you an incorporated insurance company for that purpose?

Mr. INGRAM: No, we arrange, and have for several years now, a type of bond underwritten by a private carrier in the United States.

Mr. URIE: All credit unions in Canada are members of the body which you represent?

Mr. INGRAM: No, they are not, but the vast majority of them are.

Mr. URIE: What is the percentage that are?

Mr. INGRAM: It is about 96 per cent, excluding the caisse populaire group in Quebec.

Mr. URIE: What is the governing body of your organization? How is the board of directors elected?

Mr. INGRAM: It is comprised of about 245 directors on a world-wide basis. They are elected by provincial or state leagues, of which Ontario is one example. They are allowed to elect to our board a maximum of five directors per league, depending on the size of the league.

Mr. URIE: You do not have a board of directors for Canada alone?

Mr. INGRAM: No. We have a total of 30 directors.

Mr. URIE: From Canada?

Mr. INGRAM: Yes, from Canada, on this international board.

Mr. URIE: How are they elected?

Mr. INGRAM: By individual leagues. For example, Prince Edward Island, our smallest league, is entitled to one director on our international board, and Ontario, which is our largest, is entitled to five. It is based on the credit union population in the particular province.

Co-Chairman Mr. GREENE: Is the majority of the board American?

Mr. INGRAM: Yes, it would be, sir.

Mr. URIE: What about operating costs?

Mr. INGRAM: This is financed on a dues basis. The existing dues structure is such that the individual leagues pay to our organization nine cents per member per year. In other words, if Prince Edward Island has a thousand members in their league they would pay to CUNA, our organization, nine cents per member per year.

Mr. URIE: That does not mean the mutual insurance company you have, and so on, are not self-sustaining? They are not paid for over and above the premiums, and the purchases from your supply company?

Mr. INGRAM: These are self-supporting organizations.

Mr. URIE: If I may skip over to something which was said by Mr. Hallinan when he appeared before this committee two weeks ago. I just wanted to compare what happens in Ontario with what happens in other leagues in this country. He said at page 136 of the printed proceedings that the average dividend paid to members last year in Ontario was about $4\frac{1}{2}$ per cent, and about 4 per cent was paid upon deposits by way of interest. Are those figures fairly common throughout the industry?

Mr. INGRAM: Yes, I would say that is so, though with respect to Canada those dividend rates are slightly on the high side. I think the average dividend rate on shares in Canada would be between 3 and $3\frac{1}{2}$ per cent. This is because in industrial Ontario the vast majority of credit unions charge the maximum rate permissible, which is one per cent per month, and use the interest rebate as a technique of reducing the effective interest rate. However, particularly in western Canada and the Maritime provinces, the most common interest rate charged is one-half of one per cent per month or three-quarters of one per cent per month. In other words, because their gross income is lower, then necessarily it follows their dividend rates or distribution of earnings will automatically be lower as well. So you will find in most of the other provinces that the dividend rate, or interest rate on deposits, where they use it, is slightly lower on the average than Ontario.

Mr. URIE: I take it from your last statement that some credit unions do not have deposits paid in, some are by the purchase of shares only?

Mr. INGRAM: Yes, that is quite so. Again, particularly in Ontario the capital structure of credit unions is basically that of share capital and not deposit capital.

Mr. URIE: Why is there a difference? It all amounts to the same thing in the end, does it not?

Mr. INGRAM: Yes, it does. I suppose, for example, because of the very fact a lot of our credit unions hark back to the old days when individual credit unions were called people's banks, there is a feeling among some of our people now that in addition to share capital they want some kind of temporary funds in the form of deposits which they can actually use for chequing purposes. This is quite a common kind of service now a lot of our credit unions are providing for the members. In other words, this is the common one-stop sort of deal the ethnic credit unions are providing. Particularly in small communities and some rural areas many are providing chequing services. The provincial acts under which they operate make it mandatory that the capital to provide this service must be deposit capital and not share capital.

Mr. URIE: I think this is not permissible in Ontario.

Mr. INGRAM: No, it was not permissible under the Ontario act. It has been for some time, but it was a silent section of the act. There was never any

ruling one way or the other, but this service has been provided in Ontario for 11 or 12 years.

Mr. URIE: Is there any limitation on the amount which may be borrowed by your members?

Mr. INGRAM: No, there is no special limitation, except as provided under the various provincial acts.

Mr. URIE: Are they fairly uniform in that respect?

Mr. INGRAM: They are generally of a uniform nature.

Mr. URIE: What is the general limitation?

Mr. INGRAM: Generally a \$5,000 maximum. Ontario is the exception; they allow a maximum of \$10,000 loans based on securities of first mortgages. Some of the other provinces provide for lesser amounts.

Mr. URIE: For personal loans, unsecured by first mortgages, what is the limitation?

Mr. INGRAM: It is generally \$500 in Canada on an unsecured basis. On a secured basis, depending on the type of security and depending on the provincial legislation involved, the figure may be somewhat higher than that. Normally the average unsecured loan ranges between \$500 and \$750, depending on the legislation.

Mr. URIE: Do you have any knowledge whether or not any credit unions which charge the full one per cent per month do not have rebates?

Mr. INGRAM: Yes, there would be some, but very few.

Mr. URIE: Any idea of how many?

Mr. INGRAM: I have, in my experience, back in my league days, run across credit unions which did not provide for rebates and did charge the one per cent rate, but it is a very small percentage.

Mr. URIE: I presume the source of funds used is pretty much the same in all your credit unions throughout the country as it is in Ontario, as described by Mr. Hallinan who was here—namely, the sale of shares, deposits and bank borrowing?

Mr. INGRAM: Yes, that is our prime source of capital.

Mr. URIE: Is there any limitation on the number of shares which may be held by any individual member?

Mr. INGRAM: In isolated instances. In individual credit unions there is sometimes a limitation placed on the amount of member's shares which may be purchased, but normally no.

Mr. URIE: Then there is no limitation on the amount of deposits?

Mr. INGRAM: No.

Mr. URIE: What about voting rights attaching to the shares? Is it one vote per member?

Mr. INGRAM: The entire movement is exactly the same in this respect, that the voting rights are not dependent on the shares or deposits of the individual member. Our system is one member one vote regardless of what his shares or deposits may be.

Mr. URIE: Now, you pointed out to us during your initial presentation that the Credit Union National Association is very interested in seeing full disclosure not only in dollars and cents of the cost of a loan, but also in percentages. You are quite aware, I am sure, of the many objections raised by various financial organizations, based primarily on the difficulty of calculation and the problem of accuracy as between various systems and so on. I wonder if you would give the members of the committee your views in detail on this particular objection?

Mr. INGRAM: I realize that there are perhaps some objections on the part of some other organizations to this kind of legislation, because they feel it is not operationally possible to calculate these rates in an exact fashion. Frankly I do not think this is so; I think this is perhaps an insult to the intelligence of our country's economists and mathematicians. It may seem impossible to a lot of us, but there is the old adage that the impossible just takes a little longer, and I am sure that these can be worked out. I do not feel that there is any financial institution in this country operating on a sound legal basis that would object in principle to this kind of legislation. There may be operational problems, in transactions like revolving credit or open end accounts where outstanding balances are changing rapidly, but the credit union does this every day in refinancing loans to its members. We have to calculate the exact cost to the member based on this one per cent rate of loan, and we have to find out the exact cost again in refinancing a loan. To me this is as difficult as any problem that any other institution may have.

Mr. URIE: On the face of your promissory note, appendix C to your presentation, is shown the amount per month that must be repaid, calculated at one per cent.

Mr. INGRAM: Yes, it also includes the per annum charges. I have a feeling a lot of these institutions are reluctant to advertise the fact that they are charging 12, 14 or up to 20 per cent per annum interest on loans. I expect this is why they are opposed to this legislation.

Mr. URIE: Last week we had appearing before us members of the Canadian Federation of Agriculture, and it was stated in the brief that these gentlemen prepared that it was quite possible for rate books to be compiled which could be used by all organizations advancing credit. Have you any knowledge of whether or not it is possible for such rate books to be compiled?

Mr. INGRAM: We have done some checking on this, particularly through the University of Wisconsin, because they are very closely associated with us as the university in which a lot of our schools are conducted. They worked on the new rate converter we have supplied to the committee. They have assured us that to their knowledge it should be possible to develop tables or formulae to give this information on all transactions, even on open end credit. The Royal Commission on Banking and Finance made the comment that while it may be impossible to agree exactly, the degree of accuracy is not as important as uniformity which would enable comparability of credit costs.

Mr. MACDONALD: It seems you are in a unique position because your members are borrowers and lenders in the same organization. Has your own international organization ever made tests or studies to evaluate which is the most meaningful form in which to present the cost, either by an annual interest rate or a monthly cost rate, or both? Have you any information at the receiving end of credit to show which set of figures means most to borrowers?

Mr. INGRAM: Our studies, of course, are based primarily on our own members. We have always used the rate as a basis of comparability rather than dollars and cents. We feel we are moderately successful, not completely, but moderately, in keeping our members informed so that they can shop for credit on that basis. We also do provide level payment bases on credit costs. This means they have a flexibility of choice as to which method they can use.

Mr. MACDONALD: You relate it to both bases, the monthly income and the per cent per annum?

Mr. URIE: Our information, as permanent staff of this committee, is that it is quite possible to have rate books prepared which will be accurate within a very small percentage no matter what formula may be supplied on any given set of figures. You have supplied the committee with this "little man instant

rate converter". It might be of interest to the committee to show how this works.

Mr. INGRAM: Perhaps I might ask Mr. Davis to do that.

Mr. Robert Davis, *League Legislative Specialist, Credit Union National Association*: This is essentially a modified slide rule. We had originally hoped to develop something like this slide-rule calculator, but it was thought that it would not be a very accurate device. Then our mathematicians at the university suggested using a circle because they felt that if these calculations were stretched out on a ruler it would be about two feet long.

Co-Chairman Senator CROLL: I think the best thing is to give him a problem.

Mr. URIE: I will give you a problem. I want to borrow \$1,250, and I want to repay it in 24 months. Firstly, I think you should explain the difference between the add-on system, the annual interest rate system and the discount system so that the members of the committee will be familiar with the terminology on the face of this instrument.

Mr. DAVIS: You want the credit union rate?

Mr. URIE: Yes.

Mr. DAVIS: We have to figure it out.

Mr. INGRAM: While Mr. Davis is working this out, you want an explanation of the difference in terminology. The add-on rate is where a borrower is loaned a specific sum of money and the interest or whatever rate is charged is added on the principal and divided by the total number of equal payments made whether weekly or monthly. This is quite normally used in financial institutions and other organizations. The banking industry quite commonly uses the discount method. This is the old false adage that the bank charges 6 per cent on personal loans, and I say that because in virtually all cases of personal loans the rate is 11.3 to 11.4 per cent because they use the discount method. In other words, the interest charged is deducted from the principal amount of the loan, and the difference is what the borrower receives, yet he pays interest on the full amount for the full term of the loan.

Credit unions use the declining balance system, which is a very simple system in which the individual receives the exact amount he wishes to borrow. He pays interest on a declining balance, monthly, weekly, or whatever the case may be, and the effective rate therefore is a maximum of 12 per cent per annum. This compares very favourably with the discounted rate at 6 per cent, and the add-on rate, which is another rate again. These are the three most commonly used methods.

The constant ratio method is also used. I think the Ontario League used this in their submission to this committee. This is a type of formula which is extremely accurate, but as the amount of the loan increases and the number of payments increases you will find a slight error in the effective rate. However, for all effective purposes, and for purposes of comparison, it is a widely accepted formula.

Mr. URIE: When you say it is widely used do you mean it is widely used in the financing industry or among the credit unions?

Mr. INGRAM: Quite a number of finance companies use it, and credit unions also use it.

Co-Chairman Mr. GREENE: You said that the vast majority of bank loans are at the discounted rate which works out to something over 9 per cent.

Mr. INGRAM: I am talking about personal loans.

Co-Chairman Mr. GREENE: Would there be any statistics to corroborate that?

Mr. INGRAM: We make periodic surveys throughout the movement and with our own members, and we also make spot checks on loans at banks. We have their folders and brochures, and also copies of the contracts. In virtually all of these cases the personal loans are quoted at 6 per cent discounted which, in effect, means that the effective true annual interest rate is about 11.4 per cent.

Co-Chairman Mr. GREENE: You have not any data to confirm that opinion of yours, I take it?

Mr. INGRAM: That is correct, although it is based on surveys.

Mr. CLANCY: What do you call a personal loan obtained from a bank? Is it an unsecured loan?

Mr. INGRAM: It is not necessarily unsecured. It may be secured by just a promissory note or a chattel mortgage, or it might be secured by bonds and stocks. I am talking of the area of consumer loans, and not business or mortgage loans.

Mr. BELL: Do you consider the figure of 11.4 per cent that you mentioned a minimum figure?

Mr. INGRAM: It is a minimum figure with respect to the type of loans that banks make at the 6 per cent discounted rate. I presume there may be other examples. I have one here where the effective rate works out to 14.2 per cent when we apply the constant ratio formula to it.

Mr. URIE: It would be very important, Mr. Ingram, before a system was developed that would be applicable throughout the whole finance industry, to determine what system to use—whether it be the constant ratio system or the discount system—otherwise there would be no comparability at all.

Mr. INGRAM: That is right.

Mr. URIE: If you use the add-on system, for example, that would have the effect, apparently, of reducing the rate to $6\frac{1}{2}$ per cent, while if you use the discount method on the same set of facts the effective rate would be 12 per cent.

Mr. INGRAM: That is true.

Mr. URIE: So the most important thing is, first of all, to establish the system that is to be used?

Mr. INGRAM: Yes, to create a uniform system.

Mr. URIE: Would you think that that could be done by agreement in the industry, or would it have to be accomplished by legislation?

Mr. INGRAM: From my experience in this particular occupation I think it would be extremely difficult to do it other than by legislation. The Small Loans Act, for example which was amended a few years ago, made some provision for maximum rates to be charged up to certain limits. The Royal Commission on Banking and Finance recommended that these maximum rates be increased to a higher figure. Perhaps this should be done, but here, again, this is an area where it seems the only way to provide effectively for this kind of solution is to do it by legislation. I do not think it could be accomplished on a voluntary basis.

Mr. URIE: In your opinion, what is the fairest and most accurate system to use?

Mr. INGRAM: Of course, I would have to give you a biased answer on this. I think our system is as good as any there is.

Mr. URIE: That is not the constant ratio system?

Mr. INGRAM: Well, it is the declining balance system, and I think it is the best.

Mr. URIE: Why do you say that?

Mr. INGRAM: I say that from my experience and from the results obtained from our members who appear to be satisfied with this type of system. We never try to hide anything from them. We explain to them in clear term all the costs and percentage rates. They seem to be satisfied. Of course, they are not giving us 100 per cent of their business because they are shopping too. We are not so naive as to think that because a person is a member of a credit union he is going to satisfy all his credit needs within the family, but he has the opportunity of examining the costs of different contracts and of making sure that he gets the best service he can obtain.

Co-Chairman Mr. GREENE: If the declining balance system is agreed upon would the legislation also have to encompass the times that the declining balance would be readjusted, either weekly, monthly or yearly, in order to obtain uniformity?

Mr. INGRAM: I think this would be desirable, yes, otherwise you would not have uniformity there either. We do not have this as a problem because in our refinancing we work out the interest on a daily basis using a 30-day month. Department stores may have a different problem.

Mr. URIE: You have pointed out that some of your members go outside the family for their needs on occasion. Have you ever had a member coming back to you and saying: "Now, figure out how much I am paying for this loan"?

Mr. INGRAM: Quite often. Our refinancing has developed because our members have financed outside the family with some other organization and are paying what we consider in some cases exorbitant interest rates and costs.

Mr. URIE: You are speaking from facts?

Mr. INGRAM: Yes.

Mr. URIE: I wonder how Mr. Davis is coming along.

Mr. DAVIS: We do not have a rate table here today that goes over \$1,000. It is just a matter of computing what payment—

Mr. URIE: Then make it \$850. I thought you could use this thing by just twirling a few dials.

Co-Chairman Mr. GREENE: I do not think our counsel should be bandying big figures about, anyway.

Mr. BELL: It might be good to know, Mr. Chairman, what the default or nonpayment figures are, if they are readily available. How do your figures with respect to defaults compare with those of other organizations?

Mr. INGRAM: We have not complete and exact statistics. You are talking of delinquent loans, are you?

Mr. BELL: Yes, I am thinking of figures similar to those that Senator Croll adduced from the Superintendent of Insurance.

Mr. INGRAM: Our survey indicates that our delinquency figures, or defaults on loans, are usually running at about $\frac{1}{4}$ th of 1 per cent. This is an extremely low figure, and it always has been low. There are some reasons for this, of course. Perhaps the strongest reason for this low figure is the fact that we are restricted to dealing with a confined type of membership, and not the general public as it were.

Co-Chairman Mr. GREENE: And the majority of your loans are repaid through payroll deductions?

Mr. INGRAM: This is so with industrial credit unions, but if you examine the statistics here, for example, you will find that just about half of our credit unions in Canada are other than industrial. They are community, parochial and associational types of credit unions in which payroll deductions are not in effect. We do not rely entirely on payroll deductions as a guarantee that the loan will be repaid but, of course, they are helpful with respect to the industrial type of credit union.

Mr. BELL: Your figures are a little better than those of other organizations. Do you credit this to the type of people making up your membership?

Mr. INGRAM: Not entirely although, of course, we are dealing with a very closely defined membership. The members are the customers, and we have a very different relationship with them than does the ordinary financial institution or bank where the customers are not the owners. This makes a big difference.

Secondly—and I think this is more important—we have demonstrated quite clearly, I think, that the average person is honest. If the average person is given the chance to borrow wisely and prudently, and is given a reasonable break as to the costs of borrowing and a reasonable schedule of repayment, then he will pay his debts, whether they are payable to a credit union, to a finance company or to a bank.

Mr. CLANCY: How do you define a delinquent loan?

Mr. INGRAM: The definition varies from province to province and from state to state.

Mr. CLANCY: Missing one payment, is that considered a delinquent loan?

Mr. INGRAM: Missing one payment is considered a delinquent loan.

Mr. CLANCY: Do you make any service charge for rewriting the contract?

Mr. INGRAM: No. The 1 per cent rate is a maximum rate allowable, which includes all charges, whether investigation, refinancing, or whatever happens. They are not permitted to charge anything in excess of that, no matter what the charge may be for.

Mr. URIE: I understand your losses are greater in nonindustrial credit unions than in industrial credit unions.

Mr. INGRAM: Yes, our statistics will indicate that at this point they are higher in community-type credit unions.

Mr. URIE: In community-type credit unions, what are the loss ratios?

Mr. INGRAM: Close to one-quarter of 1 per cent.

Co-Chairman Senator CROLL: But the real reason for that is the fact, is it not, that you take an assignment of wages on a loan in the industrial credit union, whereas you do not do so in a community credit union.

Mr. URIE: A payroll deduction? You will have an assignment, I take it, even in the community loan, which is not exercised until it falls delinquent.

Mr. INGRAM: They are never exercised except as a last resort.

Mr. URIE: Mr. Bell was referring to a report of the Superintendent of Insurance for the year 1962. Delinquent balances for small loans:

One or two months	10.2 per cent
Two to three months	4 per cent
Three to four months	2.1 per cent
Four to six months	2 per cent
Over six months	4.1 per cent

But the net amounts written off on small loans at the end of 1962 was 1 per cent in small loans, and necessitated a reserve increase of .2 per cent.

Mr. MACDONALD: You mentioned that you had had this favourable rate. Is it not a fact that one of the reasons why you have it is that there are further factors working towards delinquency where you have a commercial loan, whereas in a credit union which is made up of people in the individual parish in which the borrower works, he will be more concerned with keeping in good status with his co-parishioners and fellow workmen than he would be if it were a case of keeping in good status at the bank.

Mr. INGRAM: This is true, because he is an owner as well as a consumer.

Mr. CLANCY: You are speaking of consumer goods, business loans?

Mr. INGRAM: Yes.

Mr. CLANCY: There would be less delinquent loans in a community where the people know one another than there would be in a case where people come in off the street and are not known.

Mr. MANDZIUK: I was interested in the point stated that the loss ratio in the community credit union is higher. I would disagree with that. The credit union has authority to ask for endorsements, if notes are taken. The credit committee can approve the security for a loan. I know from experience, as I have managed one for five or six years. We have not had a nickel of loss; and in the area of Manitoba I think losses are practically at a minimum. I feel safer in making a loan in a rural community where the borrower is personally known to the credit union, to the board of directors and to the manager, than I would feel in a large credit union in an industrial area with a couple of thousand members, where the members of the union are not personally known. They may have a job today and no job tomorrow. I admit the statistics do not lie but I do not quite admit your contention. I know a credit union in my constituency where the parishioners know the member will not let his friends down who have given him assistance when no one else would do so.

I am a great believer in credit unions, but I also believe that proper security should be taken, an endorsement should be asked for. Any credit union which goes on the theory that everyone is honest should take a second look. After all, business is business and you are lending out people's money.

Mr. INGRAM: I would not argue with you on that at all. I was trying to indicate the over-all statistics. Certainly, many of our community credit unions are experiencing a much better picture than the industrial ones, as you have pointed out. I was quoting averages on a broad basis.

Mr. MANDZIUK: I realize that.

Mr. CLANCY: In the case of the industrial credit union, in the case of an individual loan, do you cover it in the case of unemployment until the man gets back.

Mr. INGRAM: This is quite often the case, but not necessarily so. Where a credit union has that kind of built in advantage, it means that it knows when people are coming and going.

Mr. CLANCY: In other words, when a man is two weeks in arrears, you find out that he has quit the job and you know immediately that he will have to pay off debts.

Mr. INGRAM: This is done in some cases.

Mr. DAVIS: In regard to the interest converter problem we were discussing, a large credit union or lending institution will have a much more elaborate payment chart than is set forth in this leaflet. In some cases up to \$5,000 or \$10,000, and there would be details of payments by months or even by days. In the example, the amount of the loan was \$850. According to this chart, the manager of the credit union would check the entry for \$850 for 24 months and he would find the monthly payment would be \$40.01. From that he could find out the effective interest rate. Of course, we know what it is in our credit unions, but let us assume they did not know. (Here witness takes up the Little Man Interest Rate converter.) The monthly payment is \$40, the figure found in the outer circle; you move the inner circle to the amount of the loan, which would be \$850 to the point between \$840-\$860; you move that over to 400. You will note then the amount which shows under the loan with 24 instalments: Your add-on rate, 6½ per cent—you see it is between 6 and 7. Right underneath that is the simple annual rate, the effective rate, which would be 12 per cent, which is the credit union rate. Those are the figures in which you would be interested.

Mr. URIE: What you do is this: You put the inner circle which shows the amount of the loan, under the monthly repayment rate; and you look down, depending upon whether it is 24, 30 or 36 instalments, to see the effective rate; you also have the add on rate.

Mr. DAVIS: Yes. Supposing the man was told the payment would be \$60 instead of \$40, all you have to do is move the amount of loan, \$850, up to 600.

Mr. MANDZIUK: That is the amortization principle.

Mr. INGRAM: This is both the balance and the add-on up to the period of five years. This is the scale up to five years.

Mr. URIE: I do not understand how you work that because of the fact that it does not show 24 months.

Mr. INGRAM: Do not forget that if you are raising the amount of the payments, you are cutting the term.

Mr. DAVIS: The interest converter was designed for cases where we limited ourselves to interest payments up to 36 per cent, and this example I pulled out shows a rate that would exceed 36 per cent. That is the problem.

Mr. URIE: In any event, the fact that you have a converter such as this, makes it apparent that by the use of actuaries, figures could be compiled or computed and put in a rate book of some kind. We had to make certain compromises in order to devise a converter of this compact size. If an institution was interested in having one for use by the head of, say, their loan department, it is possible to get even more accuracy through greater size. We had in mind something that could be used, perhaps, by a credit union member who wanted to go around and shop for credit.

Mr. URIE: There was no necessity for using these in your own offices?

Mr. DAVIS: No.

Mr. URIE: But your members can actually purchase these devices and use them for their other credit facilities. In fact, these are available to anyone who wishes to purchase them, is that right?

Mr. DAVIS: Yes.

Mr. BELL: I take it that they are only of value to those with a similar method of calculation?

Mr. URIE: Do you have any other calculators similar in simplicity to your knowledge, Mr. Davis?

Mr. DAVIS: This one actually was developed about the time the Truth-in-lending bill—the Douglas disclosure bill was being considered by the United States Senate. The Douglas bill was first introduced in 1960, and again introduced in 1961 and 1963. At the first hearings in 1960, it was felt that something of this nature was needed to show how simple comparisons could be made with a computer or slide rule, to be useful in this sort of thing, and a mathematician at the University of Wisconsin worked this out for us.

Senator Douglas had modified his bill in 1962 because of the objection of grantors of open-end credit, so-called revolving credit. They start with an effective rate, which they know to be one per cent or $1\frac{1}{2}$ per cent a month. There is no problem there, they can disclose their rate, as we do.

However, their problem was that the amount of the commodities being purchased is a variable which can fluctuate every month. Disclosing it in dollars and cents at the time the individual opens up his revolving account is not possible. So Senator Douglas had his bill amended with a special provision for revolving credit. They do not have to disclose the dollars amount initially, because they would not know it, but they must reveal the effective rate, and each month, the amount of any new purchases made, along with all the finance charges added for that month.

Co-Chairman Mr. GREENE: Does your organization subscribe to this type of solution for open-end accounts, that the consumer would be adequately protected, in this form of disclosure or more than disclosure?

Mr. DAVIS: Well, in testifying on the Douglas bill in Washington, we limited our comments to that part of the disclosure bill which would affect our credit unions. We were willing to take it on faith that this was a compromise that would perhaps make interest disclosure more easy for the retail merchant.

Mr. URIE: I wonder if it might not be interesting, Mr. Davis, to review your appendices B and E, particularly E, at the end of your brief, and briefly summarize the memorandum which you have prepared in reference to Senator Douglas' Truth-in-Lending bill, and then perhaps we could review the draft bill which CUNA, as I understand it, has propounded?

Mr. DAVIS: Well, in appendix E in the back of the green brief—actually the analysis here contains the arguments advanced by Senator Douglas for his Truth-in-Lending bill. Those arguments boil down to about five different points. One is that it is felt that the consumer has a right to know what it costs him to use credit and to have the credit costs quoted to him in an accurate and uniform fashion. Senator Douglas reviewed some of the history of disclosure-type legislation in the United States, going back as far as 1906, when the Pure Food and Drug Act was first enacted, and citing more recent disclosure laws, such as the Wool Products Labeling Act, requiring the proper identification of the contents of fabrics for sale; the Fur Labeling Act, making it mandatory that furs moving in interstate commerce be labeled with the usual name of the animal which produced the fur; the Textile Fibre Products Identification Act; requiring disclosure of the makeup of textiles; the Automobile Information Disclosure Act, providing that the most basic of all information, the price, be clearly marked on cars; and the Securities Act of 1933, known in the thirties as the Truth-in-Securities Act. He pointed out that when the Securities Act was introduced there was a great deal of opposition to it. One of the arguments was that it would destroy the securities business, if they were required to disclose costs. Of course, we all know that didn't happen.

In the analysis, we make the point that full disclosure is in complete harmony with the classical theories of economics, the freer market the better, and that this depends on the borrower or buyer being able to rely on the information provided by the seller, or the lender. The argument is also made that by having legislation of this sort you force the minority who might tend to be unethical to tell the truth, which means that the honest seller is no longer at a disadvantage. The man who wants to be completely candid, when there is no uniform disclosure legislation, would be at the disadvantage of someone who was less ethical than he.

Another point in the bill is that it would hopefully tend to stabilize the economy. In other words, if people were informed about interest rates, the assumption is that they would be impelled to borrow when the economy needed a stimulus. Interest rates tend to be lower at that time. And there would be a holding back of borrowing when interest rates tended to be higher.

The final argument used was that disclosure would tend to forestall the need for restrictive legislation in the field of consumer credit.

As Mr. Ingram pointed out, there is no intention to impose a maximum rate on anyone, but merely that borrowers be told what rate they are charged.

The Truth-in-Lending bill would eliminate certain abuses that are prevalent in this field today. This would probably eliminate the need for restrictive legislation.

In the United States we have somewhat the reverse of the situation in Canada. We have no federal legislation, as such, on consumer credit. I think

some of the opposition to the disclosure bill, honest opposition, stems from the fear of some people that it would be an encroachment by the federal Government. Consumer credit has been left to the various states to legislate. For example, small loans legislation. We do have a federal credit union law, and about half the credit unions are under that law. But there are 44 state credit union laws. In general, consumer credit is an area which usually has been left to the various states. I just point that out. I think some of the people who have been opposed to truth-in-lending have fear, but do not object to the principle of disclosure, as such. They are a little fearful it might open the door to some federal statute regulating consumer credit in the overall.

Miss JEWETT: At any time was there any criticism of Senator Douglas' bill that it was not constitutional?

Mr. DAVIS: I do not recall anyone raising that question. He emphasized in the preamble that the purpose of the bill was to stabilize the economy. This was done, partly, I think to answer any constitutional objection, because it is a fairly well-established principle now that Congress has the right to legislate to protect and stabilize the national economy.

Mr. MACDONALD: This objection was raised in certain sectors?

Mr. DAVIS: In certain areas, yes.

Mr. URIE: The model Truth-in-Lending Act you have in appendix D, is that the same as Senator Douglas' act? It has some differences, I believe.

Mr. DAVIS: Yes, some differences, but it is basically modelled after his Truth-in-Lending bill. We incorporated the changes with respect to revolving credit.

One of the reasons we were impelled to draft a model Truth-in-Lending bill was that some of our state leagues found interest disclosure legislation was being introduced in their state legislatures and the leagues were being asked to take a position on it, and in one or two cases they were asked to put forward a suggested bill of their own in this area. They turned to CUNA because we had a 3½ or four-year history as a proponent of the federal Truth-in-Lending bill, and they asked us if we would provide some guide lines which might govern their state league's position on any legislation which might be introduced locally.

Co-Chairman Mr. GREENE: Has anyone in your organization given thought to the application of this bill with reference to dominion and provincial legislative authority, or is this merely the bill verbatim as suggested for American use?

Mr. DAVIS: I think we were only suggesting this as a guide, and we certainly did not have in mind that this should be adopted by any particular state or province word-for-word. When the title "model" Truth-in-Lending bill was used, this was what we had in mind. It was the criterion by which the Credit Union National Association would measure any such proposed legislation. I think we indicate, too, it was only put forward in so far as it would be deemed acceptable and desirable in any given jurisdiction.

Mr. URIE: Would you be good enough to touch on the high points of this proposed bill so that the members of the committee may see what your objective was and how you achieved it?

Mr. DAVIS: Sections 1 and 2 declare the purpose of the bill, which is to assure a full disclosure of the cost of credit. We have an all-encompassing definition there. I think this is what Mr. MacGregor meant in his testimony, that in any kind of legislation in this area it is necessary to have a broad enough definition of "interest" so it will include all the charges incidental to the granting of a loan. Otherwise you would not really have something which

was comparable if certain lenders were able to exclude certain charges from the definition of "interest".

The definitions of "credit" and "finance charge" are found in section 3. In section 4 we find this distinction between installment purchases and revolving credit. Section 4a is the provision that—

Mr. URIE: You are reading from Senator Douglas' bill?

Mr. DAVIS: Have I the wrong number?

Co-Chairman Senator CROLL: Yes. Appendix D.

Mr. URIE: It is pretty much the same thing, but different numbers.

Mr. DAVIS: Yes, I am sorry.

Section 2 spells out what must be disclosed: the cash or delivered price of the property or service to be acquired; the amount to be credited as down payment or trade-in; and the difference between the total cost and the down-payment or trade-in.

Mr. URIE: Is there not an important point at the beginning where you say:

Except as provided in the following subsection (B), any creditor shall furnish to each person to whom credit is extended,

—and then these important words:

prior to the consummation of the transaction,

In other words, there is no use providing this information unless the borrower has a chance to see it first.

Mr. DAVIS: He must have it before the consummation of the loan, if it is going to be useful for comparison purposes.

Mr. URIE: And then you have these various items. Number 7 is the simple annual rate. You are not interested in the one per cent or $1\frac{1}{2}$ per cent per month. The reason it is shown as an annual rate is in order to give a clearer picture of what the cost is going to be?

Mr. DAVIS: This is an important point, I think. The Credit Union National Association, at the hearing on the Douglas bill in Washington, was questioned about the fact we presently quote our interest rate only on a simple monthly basis. This has been traditional with the movement during the past 30 years. Under questioning we indicated because of our interest in seeing the consumer provided with a uniform yardstick, we would be willing to change our method of quoting interest.

Co-Chairman Mr. GREENE: What is the opinion of your organization as to the cooling-off period of revocability whereby in a consumer credit transaction the potential consumer would have, say, a period of 48 hours whereby he might revoke the contract by simple notice in writing? Have you any opinion on that proposition or similar propositions?

Mr. INGRAM: I do not think the movement, as such, has any stated policy or opinion on that kind of situation. What we have suggested though, I think by way of recommendation, is that the transactions, if they prove to be unconscionable, should be subject to redress in the courts and some alleviation of that kind of situation.

Co-Chairman Mr. GREENE: From your personal experience, apart from the official views of your organization, do you feel such a general policy or proposition would render the business chaotic, or do you think it would be feasible to operate in a businesslike manner if such a right existed in the consumer?

Mr. INGRAM: I think it is perfectly feasible. I can foresee a substantial cost factor entering into it. In other words, the actual cost of writing up con-

tracts, and so on, is a substantial one, and there would have to be an allowance made in this kind of provision for the cancellation of contracts. I can see some cost increases coming in here; but, certainly, I do not think, anything that would affect the feasibility of such a proposition.

Mr. DAVIS: Something similar to that occurs in credit union practice. Say a member, after he transacts a loan, comes in the next day and wants to pay it off, no penalties would be imposed. The treasurer would look up the cost of having the loan for one day and the member would pay a rather negligible sum.

Co-Chairman Senator CROLL: Are you aware of the recent British legislation on consumer credit? That is what I think my co-chairman had in mind was this. The British legislation provides that in a case where a sale is made outside the premises of the vendor, in a home or outside the vendor's premises, they should have 72 hours in which to acknowledge or repudiate the contract. I suppose what they had in mind was the window salesman and encyclopedia salesman who sell the wife a bill of goods while the husband is absent.

Mr. INGRAM: I have heard about that, but I am not really familiar with it.

Mr. BELL: How can this apply to a cooling-off period?

Co-Chairman Senator CROLL: At the moment we are not discussing the cooling-off period. We are discussing the credit union. I notice you point out on page D-5 in section (C) that:

Any person who wilfully violates any provision of this Act or any regulation issued thereunder shall be fined not more than \$5,000, or imprisoned not more than one year, or both.

Are you aware of the Royal Commission on Banking and Finance? You must be, I see a copy of it in front of you. Do you remember what was said in that report about these matters? To refresh your memory I shall read to you from page 383:

Nor are we impressed with the argument that requiring disclosure would raise the cash price of an article, and thus lead to concealment of the effective interest rate. We believe that, as now, effective competition will keep the cash price at realistic levels, but in order to protect against the possibility of merchants using inflated cash prices for the purpose of calculating interest, the Act should contain a provision that the price of the article must be that at which cash transactions are normally carried out. Finally, this legislation should impose stiff penalties for excessive charges or failure to disclose. At the least, the lender should forfeit all principal and interest on the illegal transactions. In addition, fines should be imposed and, as now, the authorities should have the power to suspend the licenses of lending institutions in cases of flagrant violation.

This report, as you know, was made by Chief Justice Porter, and you have read it. This goes much further than you indicate.

Mr. INGRAM: We are just being moderate.

Co-Chairman Senator CROLL: Does this go too far, in your opinion? They are pretty rough, you know, when they say "At the least, the lender should forfeit all principal—"

Co-Chairman Mr. GREENE: That would lead to a plethora of litigation.

Co-Chairman Senator CROLL: At least it would appear that they are impressed with the seriousness of the problem.

Mr. INGRAM: I think the important fact is that they want to put some teeth into the legislation.

Mr. DAVIS: There was disclosure legislation enacted in a few states where there were no penalties specified. But now when the borrower brings to the attention of the authorities the fact that there was an illegally high rate of interest charged, the lending party says it was a mistake and will correct it, and no effort is made to penalize him.

Mr. URIE: I did not quite follow what you said a few moments ago with regard to revolving credit.

Co-Chairman Senator CROLL: Let me see if I understand it. A man buys goods from a store on a revolving credit basis. When he enters into the original transaction he is told the rate of interest per month.

Mr. DAVIS: That is right. They begin with an effective rate like we do.

Co-Chairman Senator CROLL: They do it now. At least two of the larger merchants in Canada charge at a rate of interest of 18 per cent. It is there for all to see. However, to continue, the purchaser then comes in and buys again the next month and so his account varies. Let us say, he buys \$50 worth in merchandise in that next month, and let us say, further, that he originally bought \$100 worth. He comes in and pays off \$50 and buys a further \$50 worth. Now he still owes \$100. At that point he knows his interest rate is 18 per cent, but all that is now disclosed to him is the cost of the carrying charge that month. That continues so that what he owes in addition to the original debt is disclosed in the amount of the carrying charges in dollars each month. But the interest rate remains the same.

Mr. DAVIS: Yes. But the other distinction is at the time when an individual enters into a revolving credit arrangement, when the merchant need only furnish a statement containing the effective rate, the effective annual rate.

Co-Chairman Senator CROLL: Some do that.

Co-Chairman Mr. GREENE: And they do it on a monthly basis.

Co-Chairman Senator CROLL: They show so much per cent per month. In any event there can be no objection to it, or perhaps I should say there can be no difficulty about that disclosure. The difficulty arises in disclosing what happens in a revolving credit account. From the suggestion which you made it would appear that since he already knows the interest rates, what now needs disclosing is the cost in dollars and cents each month.

Mr. DAVIS: Yes. This was Senator Douglas's idea which he proposed to meet the objections of retail merchants.

Mr. INGRAM: This is an example of where the rate was not quoted.

Co-Chairman Senator CROLL: I notice the witness has a contract here where the rate is not quoted. It is from one of the largest merchandisers in Canada. As I recall in some of the contracts entered into were on a revolving credit basis it was disclosed, but in other cases it was not. Have you other instances of contracts with what you consider to be onerous rates of interest?

Mr. INGRAM: We have others here from various sources.

Co-Chairman Mr. GREENE: If you have no objection to producing those, I think these are what we are interested in.

Mr. URIE: Before leaving this revolving credit there is one point I would like to know; what is the situation if there is a substantial purchase made towards the end of a given period, say three days before the end of the month, and the amount of interest cannot apply to the whole month? Do you know how this proposed legislation can effectively preclude the lender from charging for the whole month?

Mr. DAVIS: Well, they could have tables available with a breakdown on a day-to-day basis. We have such tables and use them in credit unions.

Mr. URIE: Do you think from your experience it is feasible for lenders, retailers and people of this nature, to be obliged to make reference to tables of this kind so that only three days' interest may be charged on that substantial purchase towards the end of the month?

Co-Chairman Mr. GREENE: If the interest is calculated on a diminishing balance basis it should be understandable.

Mr. URIE: But the interest should be shown on the statement received by the purchaser at the end of the month. But then if he purchased the goods towards the end of the month he could be charged for the whole month and he would never know.

Mr. INGRAM: There are tables available which will work out this cost on a daily basis. There is no reason why it should not be worked out on a daily basis.

Mr. L'HEUREUX: If they have to show the effective rate that would take care of this situation because otherwise it would not be the effective rate.

Mr. URIE: It would take care of it providing there was some regulation requiring them to do it that way.

Co-Chairman Mr. GREENE: I want to get one point clear. Your proposition has been made with regard to the disclosure of rates, as I understand your presentation, at the contract level. Have you any views with respect to advertising, and the statements of rates on a simple annual basis in advertisements that refer to credit? Has your organization any views on that?

Mr. INGRAM: Yes, Mr. Chairman. I think it naturally follows so far as we are concerned, that if we are to present the picture to the consuming public in an effective and objective way we have to do the same thing with respect to any advertising media that are used. One of the recommendations contained in our brief is to the effect that all advertising should contain the same information that we give on an internal basis, as some of our pamphlets here indicate.

Co-Chairman Mr. GREENE: You have some examples here of both advertisements and contracts in which you feel proper disclosure is not made.

Mr. INGRAM: Yes, that is right.

Co-Chairman Mr. GREENE: Would you present those to the committee?

Mr. INGRAM: We have just picked out at random. These are samples of contracts that we have photostated in order to indicate to the committee some of the confusion that exists in the industry. We have here a contract from one of our chartered banks—

Co-Chairman Mr. GREENE: I think you can name the bank.

Mr. BELL: Perhaps I might interject here, because I have been thinking of this subject, that we should establish—our lawyer or our accountant can perhaps do this—some sort of a table that shows in a simple manner that we can all understand—for example, using \$100 for 12 months—the different types of calculations. I do not think we can compare everything we want to compare with this machine. I think the information should be on the record.

I think also, in connection with this matter that we are currently discussing, we should have before the committee winds up a complete list of all the different institutions such as banks, chain stores and finance companies, and the different kinds of loans and rates. If we just jump in and out then publicity will be given to one example here and there, and we will be in the same situation as we were with respect to our previous hearings. Before we wind up I think in all fairness that we should have a complete list of all that sort of information.

Do you not think that that is a reasonable request? If we are going to mention names then all names should be mentioned. The last time, I recall

that the Canadian Bank of Commerce was mentioned which seemed to indicate it was the only bank in the personal loan field at the time. I do not know whether they consider they received favourable publicity, but I recall that when the amount they were charging was disclosed it was given considerable attention.

Co-Chairman Senator CROLL: With respect to what you have been saying, Mr. Bell, Mr. L'Heureux has been working on that over the last month. In discussing the matter with him this morning I was informed that he intends reporting to the committee next week. We think we will hold that meeting in camera. He is working out interest tables for us in order to provide us with that information. He is not dealing with some of the other things you have mentioned, but we will pick them up in due course.

Mr. BELL: Yes, we can cover the other information from the different companies.

Co-Chairman Senator CROLL: He will report to us next week with some tables. Proceed, Mr. Ingram.

Mr. INGRAM: I just wanted to indicate to the committee that we have some examples here of contracts which do not disclose the interest rate as a percentage. They simply disclose the amount of the loan, the amount of the payment and the number of payments. We have worked out the effective rate using the constant ratio formula.

We have one here from the Bank of Nova Scotia, which rate works out to 11.7 per cent. This is what I was referring to earlier as a 6 per cent discounted rate.

Mr. MACDONALD: That is the Scotia Plan?

Mr. INGRAM: Yes.

Mr. URIE: But no interest is shown on the face of that?

Mr. INGRAM: No, there is no interest rate on any of these.

Here is another conditional sales contract through General Motors Acceptance Corporation where the effective rate works out to 17.3 per cent, which is approximately correct because in most of their advertising you will recall it is stated they use a rate of 9 per cent on new car financing.

Here is another one from Consolidated Finance Company, which rate works out to 23.6 per cent.

Here is another one from a furniture store in Vancouver, which rate works out to 32.1 per cent. This is on radio and related equipment.

Here is another from Home Heating and Appliance Acceptance Corporation, and their rate works out to 28.1 per cent.

I have another one here from another department store—

Mr. URIE: Do any of those show the rate on the face of them?

Mr. INGRAM: None of these show the effective rate.

Mr. URIE: Do they show any interest rate?

Mr. INGRAM: No, just straight dollar amounts—so many dollars for such and such a period. These are all very similar in that respect. Here is one that works out to 22.1 per cent.

I have one here from Simpsons-Sears which simply advertises the amount of the monthly payments.

Co-CHAIRMAN Mr. GREENE: This document you are reading from with respect to Simpson-Sears is not a contract but an advertisement in a newspaper; is that right?

Mr. INGRAM: Yes. Perhaps I am answering the other question too.

Mr. BELL: Is that revolving credit?

Co-Chairman Senator CROLL: They are in that business.

Co-Chairman Mr. GREENE: But they cite examples of loans?

Co-Chairman Senator CROLL: What does it work out to?

Mr. INGRAM: This one works out to 22 per cent.

Co-Chairman Mr. GREENE: It is just examples of loans and how much a month the borrower pays?

Mr. INGRAM: They are not classified as interest, but as a service charge.

Here are samples from a brochure from the Present Finance Corporation. They have six examples here in which the effective rates range from 18.9 per cent to 25.5 per cent.

Co-Chairman Mr. GREENE: Is this an advertisement?

Mr. INGRAM: Yes, sir.

Co-Chairman Senator CROLL: It indicates that interest?

Mr. INGRAM: No, these are our figures. We have worked them out. This example indicates the cash that the person receives, the number of monthly payments and the amount of each monthly payment and the cost of the loan, but not the effective rate. We have worked that out.

Co-Chairman Mr. GREENE: Again, it does not call it interest?

Mr. INGRAM: No, just monthly payments. The last one I have here is from the Personal Loan Department of the Bank of Commerce, and this particular example works out to 14.2 per cent.

Co-Chairman Mr. GREENE: Is this an advertisement in a newspaper, again?

Mr. INGRAM: Yes.

Co-Chairman Senator CROLL: The Canadian Bank of Commerce's rate works out to 14.2 per cent?

Mr. INGRAM: Yes.

Co-Chairman Senator CROLL: I am surprised. Are there any others. We will ask you to leave those documents with us.

Mr. INGRAM: I have another here from Traders Finance Corporation on a small transaction, and their effective rate works out in this particular case to 68.8 per cent.

Co-Chairman Senator CROLL: Give us the figures. This may be a ten-dollar purchase.

Mr. INGRAM: No, this is on \$124.50. That is the amount financed. The finance charge is \$25, making a total of \$149.50, payable by one instalment of \$24.50 and five instalments of \$25.00.

Mr. MACDONALD: What is the effective rate?

Mr. INGRAM: According to our formula it works out to 68.8 per cent. This is roughly interest of \$25 for six months. We have one here from a used car dealer which works out to 46 per cent.

Co-Chairman Mr. GREENE: Is this a direct contract between the dealer and the buyer with no finance company involved?

Mr. INGRAM: This involves Delta Acceptance Corporation.

Co-Chairman Senator CROLL: Have you any more?

Mr. INGRAM: We have some other examples of advertising here which, in our opinion, leave something to be desired. There is one example here from the White Sewing Machine Company which is nothing more to us than a gimmick. It simply suggests that they are giving away the sewing machine itself provided you buy a cabinet. The price of the cabinet and the machine combined is the same as the price they are quoting for the cabinet alone.

Mr. BELL: That looks like loss leader in reverse. We had better have Mr. Macdonald of the Combines Branch look into that.

Mr. INGRAM: This is an example of what we mean by deceptive advertising. Here is another one that suggests that all you buy is a series of records, thus building up your own record library, and you get a free stereo set. When we checked this out we found that of 62 records, 15 were actually listed at the price quoted of \$4.98; 17 of them are available on the open market at prices from \$1.98 to \$2.98; and 30 of them were discontinued records. Yet they are all listed in the brochure, which indicates they are all top notch recordings for which you normally pay \$4.98.

Co-Chairman Mr. GREENE: What company is that?

Mr. INGRAM: This particular one is the American Music Corporation in Toronto.

Mr. URIE: Is that a hand bill sent around or is it through the mail?

Mr. INGRAM: This is paid advertising, and "return postage paid" is written on the back. Here we have another, from one of our western provinces, that is trying to sell primarily steelware, flatware, and they are giving away what appears to me to be a fantastic bargain, another gimmick, to induce the housewife into buying silverware, at \$69.95, giving a credit of \$110 for this purchase price of \$180 worth of silverware. On checking we find this is an exorbitant amount for inferior merchandise that is not worth anything like that amount of money. This is through the Cana Home Equipment Limited in Edmonton, where they simply send a gift certificate in the mail to a selected person, "credit Mrs. Davies with \$110 for the purchase of silverware" which is not worth anything like that amount.

Co-Chairman Mr. GREENE: Has your organization done any research on whether or not the postal authorities are prosecuting adequately under the provisions of the legislation which would permit them to prosecute for using the mail with intent—

Mr. INGRAM: No sir, we have not.

Mr. URIE: These are examples not so much of abuses in extending credit but of misleading and deceptive advertising.

Mr. INGRAM: This is the kind of situation which the average consumer is facing today, and we feel it is either through ignorance or some other reason.

Mr. MANDZIUK: Would not the Better Business Bureau be interested in this?

Mr. INGRAM: I expect they would.

Mr. CLANCY: There are B.B.B. in many cities and they are available if you want to ask a question.

Mr. INGRAM: I think the B.B.B. is not available in dealing with these questions which arise every day in the week.

Miss JEWETT: There is nothing in this model act which would get at this kind of misleading practice we have just heard about?

Mr. INGRAM: Not in this particular act.

Mr. MACDONALD: Do you know if the B.B.B. will lay a charge on the basis of fraudulent advertising?

Mr. INGRAM: I do not think they are in a position to do so.

Mr. CLANCY: All they can do is advertise the fact that that guy is a crook.

Mr. MACDONALD: I think this B.B.B. could lay a charge if they wanted. You do not know if anybody has done so?

Mr. MANDZIUK: On the information you get from the B.B.B. It is up to the individual.

Mr. URIE: The individual complains to the B.B.B. and may seek to have the Crown Prosecutor lay a charge on private information, but the B.B.B. of itself has no power to direct charges.

Mr. MANDZIUK: Is there any computer or any easy way by which individuals like ourselves could take the figures, so much borrowed, so much cost of goods, so much repayment, so many months, so as to give a quick way of computing interest rates. What is the formula that is used?

Mr. INGRAM: There are several ways of computing.

Mr. MANDZIUK: Is your computation accurate? They may come back at you and say so much is interest, the rest is carrying charges or whatever you have, to provide for delinquents or losses and so on. There could be half a dozen excuses. It is mainly the accuracy that I am concerned about.

Mr. INGRAM: All charges incidental to the framing of a loan are in the same category, and I do not care what you call them. They may be called interest, investigation charges, insurance charges, or some other charges. To me, these are all costs incidental to the granting of a particular loan. In our opinion, they should be stated as a percentage of the total cost of granting that particular loan, no matter what they may be called.

Mr. MANDZIUK: The charges should be named, and what they are. That is your opinion?

Mr. INGRAM: And the total of those charges should be indicated as the total cost and the percentage of the amount financed.

Co-Chairman Senator CROLL: Mr. Mandziuk, earlier I told the committee that Mr. L'Heureux, our accountant, has been working on this for some time. I had some discussions with him earlier. In a discussion this morning he assured me that he was assured, and that he has personally satisfied himself, that rate books can be provided to meet any situation and that the computation will be exact. He will discuss this at our next meeting.

Mr. MANDZIUK: I think that is a very good thing.

Co-Chairman Senator CROLL: He has been working on it for some time.

Mr. MANDZIUK: That is very good progress. Are these round charts of any assistance?

Mr. INGRAM: Yes, they are, but not in practical use in the sense that a member would not carry one around with him.

Mr. MANDZIUK: You have them for the use of members?

Mr. INGRAM: We provided one for each member of this committee. If any member has not got one, we would be prepared to provide an additional one.

Mr. MANDZIUK: Can you supply the membership with these computers?

Co-Chairman Senator CROLL: I am told that every member of this committee has already received one of these. The members should have received it at the time of appointment to this committee. I was assured of that.

Mr. MANDZIUK: No.

Co-Chairman Senator CROLL: My co-chairman suggests that a dozen be sent to Mr. Jarvis, our clerk, and that he will pass one around to those who may have mislaid their own.

Co-Chairman Mr. GREENE: Do you know of any prosecution ever instituted in Canada in regard to advertising being so worded or formed as to deceive the reader with respect to interest charges?

Mr. INGRAM: No sir, I am not aware of any such prosecutions.

Mr. MANDZIUK: Have we any law on that subject?

Mr. MACDONALD: There is for fraud, and there are provisions regarding false advertising. To give a snap opinion, it might be false advertising regarding the

example of the record, but it might not be so in the case of the sewing machine, as who is to say you are not putting the value on the machine and giving the cabinet for nothing.

Mr. INGRAM: There are some grey areas in almost all of this.

Mr. MACDONALD: As I recall, we got these round charts in the last session, and perhaps some of the members now were not members then.

Co-Chairman Senator CROLL: I was assured that our staff had followed the changes and dealt with that. I may be wrong. In any event, we will have some computers here and the clerk will see they are provided to those that wish to have one.

Co-Chairman Mr. GREENE: I would like to thank the witnesses who appeared on behalf of the Credit Union National Association. Their presentation has been both comprehensive and extremely well put together. It has been very helpful to this committee. Thank you.

The committee adjourned.

APPENDIX "D"

BRIEF

submitted by the
CREDIT UNION NATIONAL ASSOCIATION
to the
JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS
ON CONSUMER CREDIT

JULY 14, 1964

A SUMMARY

- (i) The Credit Union National Association—an international nonprofit association of credit union leagues—presents this brief to the Joint Committee of the Senate and House of Commons on Consumer Credit on behalf of its nine member leagues and affiliated credit unions in Canada.
- (ii) Credit unions, owned and operated by their members, have been operating in Canada since 1900. They are chartered and supervised under the laws of their respective provinces, and each is organized under a common bond of association such as employment, residence, profession, church affiliation or club membership.
- (iii) Every union has two main objectives—to encourage its members to save regularly and to provide them with low-cost credit for provident or productive purposes. Credit unions make loans principally on character, and over the years have not only granted loans to many members who could not have obtained credit from any other legitimate source, but have saved their members millions of dollars in interest costs that other lenders would have charged.
- (iv) Credit unions are proud of the positive contribution they have made to the wellbeing of Canadians and the economic life of the nation by encouraging thrift and the wise use of credit among their members. The credit union is a valued friend to many Canadian families, its financial counselling often of incalculable aid.
- (v) Credit unions have always given their members full information about the cost of loans and the terms of repayment, and believe that all borrowers are entitled to such information. Through CUNA Supply Cooperative, credit union treasurers, loan officers and credit committee members can obtain such useful tools as the Little Man Instant Rate Converter to aid them in giving their members all the facts, and the movement is constantly educating its members to shop wisely for credit.
- (vi) The credit union movement approves the recommendations of the Royal Commission on Banking and Finance concerning mandatory disclosure of the terms of conditional sales and cash transactions, and heartily agrees with the Commission "there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula."

- (vii) The consumer credit user is so confused by the variety of credit plans being offered today he cannot shop intelligently for credit, and is too often a victim of his own ignorance or others' duplicity. We believe he must be better educated and informed.
- (viii) We have always advocated the wise use of credit for provident and productive purposes, and we deplore the hard-sell techniques of many credit extenders in the field today.
- (ix) Legislation to protect the consumer credit user is urgently needed, and we recommend:
 - (a) that extenders of every kind of credit be required to disclose in writing to prospective borrowers both the total cost in dollars of the credit to be extended and the rate in terms of simple annual interest;
 - (b) that all advertising by credit extenders give full details of the total costs in dollars and in terms of per centum per annum;
 - (c) that victims of unconscionable transactions be granted redress by the courts, and those who have exacted the unjust terms be penalized under the law.
- (x) The Credit Union National Association pledges wholehearted support and co-operation to the members of this Joint Committee in their very important enquiry into the problem of consumer credit.

A BRIEF
SUBMITTED BY THE
CREDIT UNION NATIONAL ASSOCIATION
TO THE
JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

(1) The Credit Union National Association (CUNA)—an international non-profit association of credit union leagues—presents this brief to the Joint Committee of the Senate and House of Commons on Consumer Credit on behalf of its nine member leagues and affiliated credit unions throughout Canada.

(2) The brief deals with the experience of credit unions in serving their members' savings and credit needs, the attitude of credit unions toward consumer credit, our continuing concern that users of consumer credit be given full information about its cost by all lenders, our belief that effective legislation is urgently needed to protect the credit user and do away with the rank abuses that still exist in the credit field today, and our recommendations concerning this necessary legislation.

(3) We append to this brief copies of the *International Credit Union Yearbook* (Appendix A) and *Services* guidebook (Appendix B) published by CUNA to provide you with the most complete statistics available on credit unions in Canada and around the world. These books describe the organization and operation of credit unions, detailing their thrift and loan services and built-in safeguards for members, and outline the structure and services of CUNA and its affiliates.

(4) Appendix C provides some pertinent examples of the operational forms and educational literature produced by CUNA Supply Cooperative for credit unions: the promissory notes commonly used, and several leaflets encouraging thrift or describing credit union loan practices. We will be happy to provide any further information you may require, and have filed with the joint chairmen copies of the submissions made by CUNA to the Royal Commissions on Banking and Finance and on Taxation.

(Copies of appendices A, B and C referred to may be obtained on application to the Credit Union National Association)

(5) Credit unions have a long tradition of service in the provision of consumer credit, antedating the chartered banks by some 40 years. The first credit union in North America, the Caisse Populaire de Lévis, was founded at the turn of the century by a Quebec legislative reporter, Alphonse Desjardins, who persuaded his friends and neighbours that their small individual savings could be built into a useful source of credit to protect them from loan sharks. Before that first credit union could begin to operate in January 1901, Desjardins devoted some fifteen years to a study of the co-operative credit systems then operating in Europe. He was determined to find the right way to help the small wage earners who could not borrow—except at usurious rates—to buy homes or to pay for family illness or any sudden emergency, and were not welcome even as depositors in the banks of the day.

(6) In a speech he made to the Congrès de la Jeunesse in Quebec in June 1908, Alphonse Desjardins emphasized the great need that existed for a reasonable source of credit for the poor working man.

Enfin les banques ne font pas le crédit aux pauvres. Elles prêtent à une clientèle qui se recrute principalement dans les grandes industries et le commerce. L'humble ouvrier ou cultivateur qui dépose chez elle n'a que

son argent: d'emprunt, jamais. Il n'a que l'usurier pour tout réconfort, et Dieu sait ce qu'il en coûte.*

(7) Desjardins' devoted years of study were rewarded; the caisse he founded served the people of Lévis just as he believed it could, by channelling the natural thrift of his neighbours into a common fund providing low-cost credit for those who need it. As the good news spread he was asked to help other groups form these wonderful new people's banks. Most of them were in Quebec, but notable exceptions were the co-operative credit society organized by federal civil service employees in Ottawa in 1908—which today has the largest credit union membership in Canada, serving some 22,000 government employees—and the first credit union in the United States, organized in Manchester, New Hampshire, in 1909.

(8) Sixty-four years have passed since Desjardins founded his first credit union, but the 4,560 credit unions now operating in Canada still have the same objectives—to encourage thrift through regular systematic savings, and to provide their members with low-cost credit for good and productive purposes.

(9) Credit unions have always made loans based primarily on character, believing in the individual's inherent honesty and intention to repay his loan. This may seem like blind faith to the commercial money-lender, but its rightness for credit unions, based as each is on a common bond of employment, residence, profession, or church or association membership, is attested to by the fact that less than one-half of one per cent of all credit union loans granted has ever been defaulted. There are many credit unions doing business today which have never had a defaulted loan.

(10) Credit unions also realize the importance of financial counselling services to their members, and training in counselling techniques has been provided to a large number of credit union officers, committee members and staff through the Credit Union National Association and its member leagues. CUNA publishes a quarterly consumer's guide for credit union members, *Everybody's Money*, which has been praised by experts in the field as a most valuable magazine.

(11) Good credit union legislation has always been important to the credit union movement. The father of credit unions on this continent, Alphonse Desjardins, was very conscious of its value in establishing credit unions on a sound footing. He was instrumental in obtaining the first credit union law in North America, the Quebec Cooperative Syndicates Act of 1906, and also aided the passage of the first US credit union act, Massachusetts', in 1909. His ideas were shared by Edward A. Filene, the Boston merchant who did so much to encourage the growth of credit unions in the United States. When Filene founded the Credit Union National Extension Bureau—forerunner of CUNA—in 1921, and hired a young lawyer, Roy Bergengren, to direct it, his first instruction to Bergengren was to get the laws that would enable credit unions to function well in every area.

(12) Bergengren later recalled that when he started his credit union work, he knew of no bank which had a small loans department, and no constructive legislation designed to curb the more extreme forms of usury. One horrifying example brought to light by the Associated Charities of Chicago involved a Chicago railroad worker who borrowed \$30 and had paid back \$1,080 in interest—close to 3400%—when he was sued for the original \$30.

(13) In *Crusade*, one of the many books he wrote about credit unions, Bergengren noted that "the credit side of banking was not open to average

* Vaillancourt, Cyrville; Faucher, Albert; Alphonse Desjardins, Lévis, *Le Quotidien*, 1950, p. 86.

wage workers" when the first credit unions were being organized in the United States, and adds: "It was one of the jobs of the credit union to prove that the average man is honest. That profound discovery eventually led to the opening of small loans departments by many banks." Bergengren also noted that in those early days, the credit union pioneers "rapidly learned that the only way to eliminate the loan shark was to take his business away from him". He observed the rate of interest charged by a necessitous borrower "will be fixed pretty much by the borrower's need and the lender's morals, if any," and adds that "the credit union came along as a natural solution of this problem."*

(14) Until the advent of the credit union, the only broad source of credit open to the average worker involved him in usurious money dealings. Dedicated men like Desjardins and Bergengren redeemed small wage earners from this kind of slavery. Not that credit unions were established to make borrowing easy or encourage the habit of borrowing. Our credit union laws require that loans be granted only for provident or productive purposes. The credit committee examines the purpose of every loan, and grants only those which "promise a real benefit to the borrower." The credit union's best service at one point may be the tactful refusal of an ill-advised loan, at another, the renewal of a loan when a member needs more time for repayment.

(15) Credit union loan rates are kept as low as possible. In each of the ten provinces, legislation restricts the interest on credit union loans to a maximum of one per cent per month on the unpaid balance, of the Ontario Credit Unions Act:

29. (2) Interest together with all charges and penalties shall not exceed one per cent per month on the unpaid balance of any loan.

In practice, many credit unions charge less than this— $\frac{3}{4}$ of one per cent on the unpaid monthly balance—and the majority of the rest make a rebate at the end of the year on interest paid which further reduces the effective rate and cost of the loan. An added service to credit union members is the life insurance on savings and loans provided without extra cost to them by their credit unions.

(16) Our credit unions stress the fact that their rates include all borrowing costs, and they are careful to provide each borrower with full information about the amount of his repayment, and the total cost of the loan expressed both in dollars and cents and in terms of per centum per annum. This is done so the borrower will both fully understand the obligation he is undertaking, and be able to compare the cost of the credit union loan with any other loan he might be able to make.

(17) Such comparisons are not always easy to come by. Many lenders persist in arguing that the borrower is incapable of grasping the complete facts about a financial transaction, and all he needs to know is the amount of his monthly payment. This information may be needed to help the borrower decide whether or not he can handle the repayment each month, but it certainly is not enough to allow him to compare the cost of loans from various sources. He must be given all the facts, in terms of simple annual interest, including all costs and charges.

(18) No matter how involved a transaction appears to be, there are calculators and translators on the market which can be used to present it to the borrower in simple terms. One of the best of these is the Little Man Instant Rate Converter which members of this committee have already received from CUNA. Developed by the Credit Union National Association, and produced by CUNA Supply Cooperative, the converter is being used by credit union treasurers throughout the continent.

* Bergengren, Roy. *Crusade*. New York, Exposition Press, 1952, pp. 66-7.

(19) The recently-published report of the Royal Commission on Banking and Finance recognizes the need to improve the protection of small borrowers by legislation. It recommends raising the maximum size of regulated loans from the \$1500 now specified in the Small Loans Act to at least \$5000 "in view of the substantial amount of individual borrowing which is now above the regulated limit", and also recommends "that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer."^{*} The commissioners make very clear their belief that the credit grantor should be required to provide the borrower with the dollar amount of loan or finance charges, and express them also in terms of the effective rate of charge per year, so that the borrower may compare the cost of borrowing without difficulty. They further recommend stiff penalties for lenders making excessive charges or those who fail to disclose the true cost of credit they provide.

(20) The Porter Commission has been roundly criticized by many credit grantors across the country for advocating finance charges disclosure legislation. This is the same vocal group that has consistently lobbied against Senator David Croll's Finance Charges (Disclosure) Bill and all other attempts to protect the consumer credit user by legislation. They argue that full disclosure is an impossible dream—too difficult for the lender to compute, or the borrower to understand. But the Banking and Finance Commission holds "there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so: *comparability is more important than the precise level.*"[†]

(21) It was in December 1963 that the Supreme Court of Canada ruled that provincial governments can legislate to prevent moneylenders from charging excessive interest. The court's decision upheld the constitutionality of Ontario's Unconscionable Transactions Relief Act, and paved the way for other provinces to enact similar legislation. The ruling makes it clear that although the British North America Act reserves legislation related to interest for the federal government, the Ontario Act does not relate to interest but to the annulment or reformation of contract when the cost of the loan is excessive and when the transaction is harsh and unconscionable.

(22) While we are glad that the Ontario Act exists to provide relief for the unwary or the unfortunate who have signed usurious contracts, and hope that similar legislation will be enacted in all provinces, we must reiterate there is also a desperate need for disclosure legislation to prevent the innocent or the ignorant user of credit from signing such a contract in the first place.

(23) This need was sharply pointed up last year by the findings of the Select Committee on Consumer Credit appointed by the Ontario legislature and the one-man Royal Commission on Consumer Credit appointed by the government of Nova Scotia. In both provinces, grievous cases of usurious loans were revealed. In most of these cases, the borrowers were completely unaware of the true nature of the agreements they had signed.

(24) The Ontario commission's investigations have already resulted in new protective legislation, and the Nova Scotia commissioner, Arthur T. Moreira, recommended remedial legislation for that province when he made his interim report to the government in April. Acts providing for relief from unconscionable transactions have been enacted in both Alberta and Manitoba, although a continuing storm of protest from the enemies of disclosure legislation has so far effectively prevented implementation of the law in both provinces.

(25) Ironically enough, two especially shocking instances of fraudulent loan practices were recently uncovered in Winnipeg, prompting the Manitoba

^{*} Canada. *Report of the Royal Commission on Banking and Finance*. Ottawa, Queen's Printer, 1964, p. 382.

[†] *ibid*, p. 383.

government to appoint a commissioner to investigate these cases, and a special commission to investigate the whole field of consumer credit granting in the province.)

(26) The need for protection for the borrower has been recognized for many centuries. About 2000 BC, the Code of Hammurabi fixed maximum rates of interest on loans ($33\frac{1}{3}$ per cent on loans of grain; 20 per cent on loans of silver) and decreed that if a higher than legal rate of interest were collected, the principal was cancelled. The Romans later included credit regulations in their first written laws, limiting interest to $8\frac{1}{3}$ per cent per annum, and holding any creditor who exacted higher than the legal maximum liable to fourfold damages.

(27) In 1964, our laws do not provide anything like adequate protection for the user of consumer credit. We hope this committee's valuable investigations will hasten such legislation.

(28) The Credit Union National Association has placed itself on record in support of Senator Croll's Finance Charges (Disclosure) Bill and the bills introduced in the Commons in recent years to protect the borrower. We would like to observe, however, that Senator Croll's bill in its present form does not go far enough. We believe—along with the members of the Banking and Finance Commission—that such legislation should cover all forms of credit granting, including cash loans.

(29) Presented with this brief as Appendix D is a copy of the Model Truth-in-Lending Act prepared by CUNA's Legislative Department and approved by the CUNA Executive Committee when it met May 7 this year. The Act has been distributed to CUNA's member leagues as a model on which to base federal, provincial, or state legislation.

(30) We have also appended a study by CUNA's Legal and Legislative Department of U.S. Senator Paul Douglas' truth-in-lending bill, S. 750. This is Appendix E.

(31) As these documents indicate, our concern for the rights of those who use consumer credit in Canada is matched by a similar concern among credit union people in the United States. The credit union movement in North America is united in its desire that all users of consumer credit should share the same kind of treatment we have worked to give our borrowing members for over sixty years—complete information on the cost and terms of all loans, and loans granted only when they will benefit the borrower and his family.

(32) The traditional concept of interest—as containing all charges incident to the transaction—has been distorted over the years. Today, the borrower is commonly quoted an interest rate, then given an extra list of charges. While the interest may sound low, the borrower's total cost is not, for he is paying—one way or another—the whole scale of charges, and in far too many cases has no idea what the loan is actually costing him in terms of per centum per annum. The confusion is compounded by the variety of methods used in calculating interest—the discount method commonly used by the banking industry, and the add-on method used by many finance companies. There is little wonder the borrower is confused, and quite unable to shop intelligently for credit.

(33) We believe the consumer credit user it not being dealt with fairly in the marketplace today, and he must be protected by adequate legislation strengthened by constant supervision. We recommend:

- (a) that extenders of every kind of credit be required to disclose in writing to prospective borrowers both the total cost in dollars of the credit to be extended and the rate in terms of simple annual interest;
- (b) that all advertising by credit extenders give full details of the total costs in dollars and in terms of per centum per annum;

- (c) that victims of unconscionable transactions be granted redress by the courts, and those who have exacted the unjust terms be penalized under the law.

(34) As strong believers in the wise use of credit for provident and productive purposes, we also advocate the continuing education of the consumer in the better handling of his finances, and deplore the hard-sell techniques of those credit extenders who promise anything for a dollar down, a dollar a month.

(35) In concluding our brief, we congratulate the members of this Joint Committee on their opportunity to improve the consumer credit situation in Canada through their investigations, and we pledge them our wholehearted support and co-operation.

MODEL TRUTH-IN-LENDING ACT

(May 1964)

The Model Truth-in-Lending Act was prepared by the Legislative Department of the Credit Union National Association and approved by the Executive Committee on May 7, 1964 for release to credit union leagues. It is intended as a guide as to what CUNA considers the essentials of a Truth-in-Lending law and as a model upon which to base state, provincial or federal legislation in this area, to the extent it is deemed desirable.

Section 1. (DEFINITIONS) As used in this Act, the term

(A) "Credit" means any loan, mortgage, deed of trust, advance, or discount; any conditional sales contract; any contract to sell, or sale, or contract of sale of property or services, either for present or future delivery, under which part or all of the price is payable subsequent to the making of such sale or contract; any rental-purchase agreement; any contract or arrangement for hire, bailment, or leasing of property: any option, demand, lien, pledge, or other claim against, or for the delivery of, property or money; any purchase, or other acquisition of, or any credit upon the security of, any obligation or claim arising out of any of the foregoing; and any transaction or series of transactions having a similar purpose or effect.

(B) "Finance charge" means the sum of all the charges (including but not limited to interest, fees, service charges, and discounts) which any person to whom credit is extended incurs in connection with, and as an incident to, the extension of such credit.

(C) "Creditor" means any person engaged in the business of extending credit (including any person who as a regular business practice makes loans or sells or rents property or services on a time, credit, or installment basis, either as principal or as agent) who requires, as an incident to the extension of credit, the payment of a finance charge.

(D) "Person" means any individual, corporation, partnership, association, or other organized group of persons, or the legal successor or representative of the foregoing, and includes the United States (Government of Canada) or any agency thereof, or any other government, or any of its political subdivisions, or any agency of the foregoing.

Section 2. (DISCLOSURE) (A) Except as provided in the following subsection (B), any creditor shall furnish to each person to whom credit is extended, prior to the consummation of the transaction, a clear statement in

writing setting forth, to the extent applicable and in accordance with the requirements of this Act, the following information:

- (1) the cash or delivered price of the property or service to be acquired;
- (2) the amount to be credited as down payment or trade-in;
- (3) the difference between (1) and (2);
- (4) the charges, individually itemized, which are paid or to be paid by such person in connection with the transaction but which are not incident to the extension of credit;
- (5) the total amount to be financed;
- (6) the finance charge expressed in terms of dollars and cents; and,
- (7) the percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the average outstanding unpaid balance of the obligation.

(B) Any creditor agreeing to extend credit to any person pursuant to a revolving or open-end credit plan shall, in accordance with rules and regulations prescribed by the Board and in lieu of the information described in subsection (A):

- (1) furnish to such person, prior to agreeing to extend credit under such plan, a clear statement in writing setting forth the simple annual percentage rate or rates at which a finance charge will be imposed on the outstanding balance at the end of each monthly period; and
- (2) furnish to such person, at the end of each monthly period (which need not be a calendar month) following the entering into of any such agreement, a clear statement in writing setting forth—
 - (a) the outstanding balance in the account of such person as of the beginning of such monthly period;
 - (b) the amount of each extension of credit to such person (including the cash price or delivered price of any property or service acquired by such person) during such period, together with the date thereof and a brief identification of any property or services so acquired;
 - (c) the total amount received from, or credited to the account of, such person during such period;
 - (d) the finance charge required for such period, stated in dollars and cents;
 - (e) the outstanding balance in the account of such person at the end of such monthly period; and
 - (f) the simple annual percentage rate or rates at which the finance charge is imposed on the outstanding balance at the end of such monthly period.

As used in this subsection, the phrase “revolving or open-end credit plan” means a credit plan under which the total amount of credit to be utilized, the dollar amount of the finance charge to be assessed, and the amounts and times of repayment are not specified at the time an agreement to extend credit pursuant to such plan is entered into.

Section 3 (IMPLEMENTATION) (A) Upon the effective date of this Act, the (specify government agency) of the State (Province) of shall assume the responsibility for the implementation of this Act. The shall prescribe such rules and regulations as may be necessary or proper in carrying out the provisions of this Act. These rules and regulations shall (1) include a description of (a) the methods which

may be used in determining the "simple annual percentage rates" for the purpose of Section 2, and (b) the size of type or lettering which shall be used in setting forth information required by such section, and (2) require that such information be set forth with sufficient prominence to insure that it will not be overlooked by the person to whom credit is extended. Any rule or regulation prescribed hereunder may contain such classifications and differentiations, and may provide for such adjustments and exceptions, as in the judgment of theare necessary or proper to effectuate the purposes of this Act, or to prevent circumvention or evasion, or to facilitate the enforcement of this Act or any rule or regulation issued thereunder. In prescribing any exceptions hereunder, with respect to any particular type of credit transaction, theshall consider whether in such transactions compliance with the disclosure requirements of this Act is being achieved under any other Act of the Legislature. Theshall exempt those credit transactions involving extensions of credit to business firms, governments, or governmental agencies or instrumentalities if it determines that adherence to the disclosure requirements of this Act is not necessary to carry out the purpose of the Act.

(B) In the exercise of its powers under this section, the shall request the views of other state (provincial) agencies exercising regulatory functions with respect to creditors, or any class of creditors, which are subject to the provisions of this Act, and such agencies shall furnish such views upon request of the

Section 4 (PENALTIES) (A) Any creditor who in connection with any credit transaction fails to disclose to any person any information in violation of this Act or any regulation issued thereunder shall be liable to such person in the amount of \$100, or in an amount equal to twice the finance charge required by such creditor in connection with such transaction, whichever is greater, except that such liability shall not exceed \$2,000 on any credit transaction. Action to recover such penalty may be brought by such person within one year from the date of the occurrence of the violation, in any court of competent jurisdiction. In any such action, no person shall be entitled to recover such penalty solely as the result of erroneous computation of any percentage required by section 2(A)7, or 2(B) (2) (f) of this Act to be disclosed to such person, if the percentage disclosed to such person pursuant to the Act was in fact greater than the percentage required by such section to be disclosed. In any action under this subsection in which any person is entitled to a recovery, the creditor shall be liable for reasonable attorneys' fees and court costs as determined by the court. As used in this subsection, the term "court of competent jurisdiction" means any court of the State (Province) of of competent jurisdiction regardless of the amount in controversy.

(B) Except as specified in subsection (A) of this section, nothing contained in this Act or any regulation thereunder shall affect the validity or enforceability of any contract or transaction.

(C) Any person who willfully violates any provision of this Act or any regulation issued thereunder shall be fined not more than \$5,000, or imprisoned not more than one year, or both.

Section 5. (EFFECTIVE DATE) This Act shall become effective on

S. 750 (Truth-in-Lending Bill)

Much interest has been shown in S. 750, the truth-in-lending bill sponsored by Sen. Paul H. Douglas (D-Ill.). CUNA, through its Board of Directors,

has supported it unequivocally since it was first introduced in 1960. What follows is (1) a background discussion, and (2) a section-by-section analysis of the bill.

Origin and Development

One of the classic theories of economics holds that the healthiest market is one where competition is given free reign. The benefits, according to this theory, will include innovation, quality products, and the lowest possible prices to buyers. Recently many economists have been saying that competition can exist effectively only when the buyer can gain access to the information he needs to make an intelligent choice among competing items. This opinion is a refinement of thinking among those who favor an open market.

In the past, the natural good sense of the buyer was relied upon for his own protection. The motto of the marketplace was *caveat emptor*—"let the buyer beware." This commercial principle meant that in the absence of a warranty, the buyer took the risk of quality upon himself. When products were simpler, and synthetic substances were unknown, *caveat emptor* served as the only guide. The buyer was the expert—in fabrics, foods, utensils, and in whatever items he purchased.

The rapid technological developments of the past 60 years have caused a general reassessment of *caveat emptor* as a commercial principle, both among buyers and among reputable sellers. It has been gradually accepted that the consumer cannot remain an expert in the market unless he receives assistance. The complicated items offered have grown beyond the reach of his understanding without lengthy instruction or experimentation. No longer can the buyer, by visual or tactile examination, determine the quality of such things as automobiles, radios, appliances, and all the other products of 20th century technology. Something has to be added.

In the words of J. M. Clark, a famous economic conservative:

(The changes in the marketplace) have added the requirements of honest and informative labeling to the more primitive requirements of business honesty and fulfillment of contracts which have always been basic to a serviceable business system.

The concept of "affirmative disclosure," called necessary by Professor Clark, has come reluctantly to the seller. Resistance to this idea has been so great that the United States Congress, in a number of cases, has been forced to act. One of the best examples of the progress of disclosure in law is the enactment of the Pure Food and Drug Act and its subsequent amendments.

First passed in 1906, the law at that time required only that the quantity of the contents be disclosed on the label. (This in itself was considered revolutionary.) No requirement existed that the seller state whether or not the contents could be harmful. The second step came in 1938, when amendments were passed requiring disclosure of hazards and side effects of drugs. This legislation required four years of sustained effort on the part of its supporters, and passed Congress only after a nationwide tragedy involving an elixir took the lives of about 100 persons. In succeeding years, the Food and Drug Administration sought to perfect its disclosure requirements so that a manufacturer, besides saying a drug was safe, would also have to say whether or not it was effective. This last attempt was thwarted in Congress until another tragedy—involving thalidomide—caused Congress to act in 1962.

Other less spectacular cases of disclosure laws have been: (1) the Wool Products Labeling Act of 1939, requiring the proper identification of the contents of fabric for sale; (2) the Fur Labeling Act, making it mandatory that furs moving in interstate commerce be labeled with the usual name of the animal which produced the fur; (3) the Textile Fibre Products Identification

Act, requiring disclosure of the makeup of textiles; (4) the Automobile Information Disclosure Act, providing that the most basic of all information—the price—be clearly marked on cars, and (5) the Securities Act of 1933, known in the thirties as the “truth-in-securities” act. It may be interesting to note that the Securities Act proposals were greatly opposed by the industry. Stock and bond brokers appeared before the banking and currency committees of both houses to warn that if Congress should require disclosure of facts about stocks and bonds sold to the public, the stock and securities exchanges would fall. Of course, nothing of the sort happened.

Another factor emerging along with disclosure to protect the buyer has been the increasing use of the warranty or guarantee. The consumer is assured that if the sophisticated product he is buying fails to work properly, the manufacturer will repair or replace it. Because of the widely varying effectiveness of these warranties, and because of the greatly expanded choice of items available, independent companies have sprung into existence to do what the buyer formerly did himself—test and compare. One of the best known of these organizations is Consumers Union of Mount Vernon, New York, which publishes a magazine giving the results of its tests. CUNA’s own magazine for credit union members, “*Everybody’s Money*,” is another example of a consumer information publication.

Many economists, in reviewing the state of the marketplace, view the consumer credit area as one of the last outposts of *caveat emptor*. These men believe free competition in consumer credit is being seriously hindered by lack of disclosure. Since consumer credit is now a billion-dollar item in our society, they say, it should be subject to a reasonable degree of competition. Credit should be extended to the borrower in an atmosphere in which both creditor and borrower are in possession of the facts about cost, the economists say. This would lead, in their opinion, to free competition, which in turn would minimize the cost of credit. The remedy for the present situation, as seen by Senator Douglas and other economists, is to propose that the federal government require that extenders of all types of credit state finance charges in readily understandable—and comparable—terms. This theory, put into practice, produced the truth-in-lending bill.

The first bill was introduced in early 1960 by Senator Douglas. Hearings were held on this bill in 1960, 1961, and 1962. In late 1962, a new version was introduced by Senator Douglas in an effort to meet the fair objections of retailers to the revolving credit requirements. These changes are incorporated in the current bill, S. 750, which has been the subject of hearings in New York, Pittsburgh, Louisville, and Boston. The chief opponents of the bill are the small loan companies, the retail merchants, and the commercial bankers. The small loan companies have declined to testify since 1960, apparently because they do not want the borrowing public to know of their opposition. The retail merchants and the bankers, on the other hand, have shown no hesitancy. The gist of their arguments is that the bill may be all right in principle, but in practice it won’t work.

Proponents have included CUNA, the National Association of Mutual Savings Banks, labor unions, many consumer groups, individual savings and loan officials as well as the National League of Insured Savings Associations. They have argued that once the principle of full disclosure of credit costs is accepted, the technical problems can be surmounted easily. Most of the opposition has centered in Senator Douglas’ Subcommittee on Production and Stabilization, where supporters and opponents are about equally divided. A vote is anticipated in early 1964, when, in the words of the chairman, the Subcommittee members will have to “fish or cut bait.” Much lobbying goes on behind the scenes as both sides attempt to sway the one or two doubtful votes.

Before beginning the analysis of S. 750, it may be well to raise two questions that frequently recur. The first is a question involving states' rights: Why should the federal government intervene in what up to now has been a state matter?

Perhaps the best answer to this question is this: a federal bill, when enacted, would affect all lenders simultaneously, presenting them with the same requirements whether they were in Oregon or Alabama. If the initiative remains with the states, a patchwork of laws will result. Some lenders would be operating under strict requirements, others under moderate requirements, and others would have no restrictions at all. Furthermore, state legislation in the credit field has proved to be full of loopholes. It is not uncommon for lobbyists representing small loan companies and retailers to vigorously oppose credit reforms in the various states. What results quite often is a bill with an impressive veneer but no guts. Many credit disclosure laws, for example, permit the seller, when confronted by the buyer with the fact that he has violated the law, merely to correct his violation and do not submit him to any penalty. As a recent article in the *Notre Dame Lawyer* said:

In effect, therefore, these provisions would seem to be instructing the seller to comply with the disclosure requirements if he desires to do so for, even if his violation is discovered he is still left with sufficient time to absolve himself from all liability.

The article also notes that in some states where disclosure is required, a statement need not be furnished the customer until after the deal is completed.

With this information in mind, one might ask: If the desire for free competition is so widely held, and federal legislation seems desirable, why should there be such determined opposition to S. 750?

The answer to this question involves profits. Although an association may support the "principle" of full disclosure, as many do, the realities of the profits their members derive from the present situation make it impossible for them to support the bill and in fact require them to oppose it. For example, the annual interest on the \$235 billion outstanding of non-business debts of individuals and families is estimated to be about \$20 billion. That is twice the amount of interest paid on the national debt. Add to this the profit on the items sold and it is easy to understand why so many extenders of credit support the "principle" but oppose the bill.

Analysis

Sections 1 and 2 declare the purpose of the bill: "To assure a full disclosure" of the cost of credit.

Section 3 consists of definitions. "Credit" is given all-inclusive definition. "Finance charge" is defined to mean the sum of all credit charges, whatever they are called.

Section 4 contains two subsections, a and b. Section 4a covers all transactions not involving revolving or open-end credit plans, which are covered by Section 4b. Thus Section 4a embraces a host of transactions from installment purchases to mortgages. The two sections taken together are the heart of the bill. The requirements laid down by Section 4a are: The extender of credit must furnish a written statement to the borrower or buyer before the transaction is completed. This statement must include:

- (1) the cash or delivered price of the merchandise or service;
- (2) the amount of the down payment or trade-in;
- (3) the difference between clauses (1) and (2);
- (4) any additional charges, which must be itemized;
- (5) the total amount to be financed;
- (6) the finance charge expressed in dollars and cents, and
- (7) the annual percentage or finance rate.

The principle of disclosure in Section 4b is the same as in the preceding subsection; however, because of the complexities of the credit plans, the details are different. Section 4b requires that any creditor maintaining revolving or open-end charge plans must furnish a written statement to the customer at the time he joins the plan. This statement must set forth the simple annual rate or rates at which the finance charge will be imposed. The creditor is required further to supply his customers using the plans with additional information at the end of each monthly accounting period. This statement must include:

- (1) the outstanding balance in the account at the beginning of the monthly period;
- (2) the amount of each transaction under the plan which has taken place in the meantime;
- (3) the total credited to the customer's account during the monthly period;
- (4) the finance charge in dollars and cents levied over the month;
- (5) the outstanding balance at the end of the monthly period, and
- (6) the simple annual percentage rate or rates which would yield the finance charge imposed.

Most ethical retailers already provide the information required in Section 4b with the exception of the annual rate provision, 4b(6). This would require the retailer merely to convert his monthly rate of charge, usually 1% or 1½%, to the equivalent annual rate—12% or 18%.

Section 5 deals with the authority to be invested in the Board of Governors of the Federal Reserve System. Under the terms of the bill, the Board would be charged with administering its provisions. Among the responsibilities invested in the Board are: (1) issuing regulations whereby creditors may determine the simple annual rate, and (2) requiring that the information called for be printed in a legible manner.

Section 6 deals with states' rights, saying that the bill would not exempt creditors from complying with pertinent state laws, unless the laws were inconsistent with its provisions. It also states the Federal Reserve Board will except from the act any credit transactions it believes are already effectively regulated under state laws requiring disclosure of the same information contained in Section 4.

If Section 4 is the heart of the act, Section 7 is the guts. It deals with penalties for violations. Failure to disclose under the act carries two penalties. First, the creditor is liable to the customer, who can sue to recover \$100 or an amount equal to twice the finance charge, whichever is greater. The maximum payable to the customer is \$2,000. The creditor who willfully violates any provision of the act or any regulation issued by FRB is further liable to a fine of not more than \$5,000 or imprisonment for not more than one year, or both. The section also specifies that the validity or enforceability of contracts is not affected by any of the provisions in the act. The last section, 8, permits the act to take effect.



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 7

TUESDAY, OCTOBER 20, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

Consumers' Association of Canada: Mrs. V. Wilson, Chairman of the Committee on Planning and Organization; Mrs. A. G. Brewer, National Advisory Council and former Publicity Chairman.

APPENDIX

E—Brief from the Consumers' Association of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-
Rainy River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Otto
Ryan
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollet, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scot and Vincent; and

That a message be sent to the Senate to acquaint Their Honours thereof.”

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Oto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a message be sent to the Senate to acquaint Their Honours thereof.

LEON J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,
The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

JOINT COMMITTEE

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act.)

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, October 20th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Gershaw, Irvine, Smith (*Queens-Shelburne*) and Stambaugh, and

House of Commons: Messrs. Green (*Joint Chairman*), Basford, Chrétien, Clancy, Mandziuk, Marcoux, Matte, McCutcheon, Orlikow and Otto—15.

In attendance: Mr. J. J. Urie, Q.C., Counsel.

On Motion of Mr. Otto, it was Resolved to print the brief submitted by the Consumers' Association of Canada as appendix E to these proceedings.

The following witnesses were heard:

Consumers' Association of Canada:

Mrs. V. Wilson, Chairman of the Committee on Planning and Organization.

Mrs. A. G. Brewer, National Advisory Council and former Publicity Chairman.

At 11.40 a.m. the Committee adjourned until Tuesday, October 27th, 1964, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, October 20, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator DAVID A. CROLL and Mr. J. J. GREENE—Co-Chairmen—In the Chair.

Co-Chairman Senator CROLL: I see a quorum. The select committee on Consumer Credit in the Province of Ontario which has been sitting and holding hearings, has requested a meeting with us in Ottawa. When we received the request we instructed our counsel to communicate with their counsel for the purpose of examining our terms of reference, and agreeing upon an agenda so that we do not involve ourselves in constitutional questions. With that in mind, they are meeting tomorrow for the purpose of arriving at some suitable time for the two committees to meet. I hope that this meeting with the committee on Consumer Credit of the province of Ontario, has the approval of this committee.

When we do meet with them the proceedings will be held *in camera* because a number of involved matters will be under discussion, and which should be discussed privately until such time as we reach some understanding or until at least we have exchanged views.

We have witnesses today appearing on behalf of the Consumers' Association of Canada. On my right is Mrs. A. G. Brewer of the National Advisory Council. She is a former publicity chairman. Next to her is Mrs. Wilson who is chairman of the Committee on Planning and Organization.

Their brief is not a long one, and it is my thought that they might just as well read it to you. It will not take long, and it will put us in the picture. They have also some supplementary material. Will you proceed, Mrs. Wilson?

I ask for a motion to print the brief. It is moved by Mr. Otto and seconded by Senator Gershaw.

Honourable SENATORS: Agreed.

(See Appendix "E")

Mrs. V. Wilson, Chairman of the Committee on Planning and Organization, Consumers' Association of Canada: Mr. Chairman, ladies and gentlemen, the Consumers' Association of Canada appreciates this opportunity of discussing consumer credit. The use of consumer credit has concerned our Association for the past decade and we welcome this investigation undertaken by your committee.

Increasing Use of Consumer Credit:

Consumer credit is a permanent and important part of our economy. The use of credit to purchase consumer goods continues to increase. Figures published by the Dominion Bureau of Statistics, September 1964 (11-001) confirm this trend.

"End of June balances outstanding in millions are:

	June 1964 million	June 1963 million
Sales finance companies for consumer goods	\$ 942	\$ 865
Small loan companies for cash loans	786	709
Small loan companies for instalment credit	49	52
Department stores	419	387
Furniture and appliance stores	188	186
Chartered banks for personal loans	2168	1770

These figures only give us part of the picture. No absolute total of consumer credit is available. For certain purposes fully secured loans by banks and life insurance companies may not be considered as outright indebtedness. On the other hand, certain avenues of credit are not surveyed, i.e. service credit (doctors, dentists, utility companies, hotels, etc.) and loans between individuals." (D.B.S. December 1963, 61-004).

Fear that this continuing increase in the use of credit had reached dangerous proportions is allayed by a study conducted by the Royal Commission on Banking and Finance. This study covered 1221 homes. The Commission reported—"The survey does not indicate that consumers generally are in an over extended financial position" (Report of Royal Commission on Banking and Finance, page 21).

Incomes are rising and average householders have increased discretionary incomes. This places them in improved positions to carry debt loads. D.B.S. Statistics indicate that average wages in the manufacturing industry for example, increased over 40% between 1953 and 1963. When corrected for inflation by the Consumer Price Index, a true increase in the volume of purchasing power of approximately 24% was shown.

Intelligent Use of Credit:

It is in the national interest that consumers should make the best possible use of their incomes for the well being of their families. Canadians using consumer credit should do so on an informed basis. This becomes increasingly urgent with the increasing use of credit.

The confusion in regard to consumer credit is well stated in the opening section of the Truth-in-Lending Bill recently rejected, I am sorry to say, by the California Legislature as reported by the "Legislature News Letter" Association of California Consumers April 19, 1963.

"The Legislature finds that the consumer or borrower seeking credit is faced with a myriad of finance rates due to differing methods of stating such rates, making comparison of different rates difficult without undertaking complex mathematical steps to convert different stated rates to a common denominator. Therefore to enable consumers or borrowers to comparison shop when seeking credit and to be aware of how much credit is costing them it is necessary to establish a single standard method for stating finance rates."

Consumer credit is a service with a price that can and should be shopped for carefully. Many consumers are unaware of what they are paying for it. There are two yardsticks available for comparing credit costs—the dollar cost and the cost expressed in terms of simple annual interest—which is a per unit price—per cent per annum. Professor E. P. Nufelt of the Political Science Department of the University of Toronto said at our Consumers' Conference June 1962:

"Reducing consumer ignorance over the nature of consumer credit contracts is not merely desirable but highly necessary."

There are difficulties in computing financial charges in terms of percentage calculations. Our organization endorses the solution offered by Senator Croll that the Government of Canada control the manner of calculations and degree of accuracy in computing the financial charges and calculating the cost in terms of simple annual interest. The purpose of securing per annum rates is to enlighten the consumer and for this purpose the rate need be correct to only $\frac{1}{2}\%$ to 1%. Wherever there are variations from one contract to another in either

time or money it is impossible to do comparative shopping for credit unless the cost is expressed in terms of simple annual interest. However, it is evident that both yardsticks are necessary for comparative shopping in most cases, the dollar cost and per cent per annum.

Canadian retail merchants consistently insist that it is quite impractical and almost impossible to express rate of charge in percentage terms. Despite this, we note that New York State has had credit service charge legislation since 1957 based on percentage calculations. (Consolidated laws of New York Annotated Book 40, Section 404). Since that time laws to limit interest charges on instalment purchases and/or revolving credit have been passed in 12 states (Buying Guide Consumer Reports Vol. 28, No. 12).

We note with appreciation a booklet on Revolving Credit distributed by a Montreal department store which states "Terms of payment provide that you receive a listed statement of purchases along with sales checks, payment slips, etc. The account being payable within fifteen days from the date the statement is mailed. There is a service charge of $1\frac{1}{2}\%$ per month calculated on the previous month's balance" (Revolving Credit General Information, T. Eaton Co. of Montreal). This is interesting in view of the statement of the Retail Merchants' Organization. I have two pamphlets by this company.

In August 1962, CAC presented a submission to the Royal Commission on Banking and Finance stating their view that legislation making full disclosure of finance charges expressed in terms of simple annual interest obligatory on all credit contracts would be valuable to Canadian welfare.

Senator David Croll has presented four bills on this subject. The object of these bills was to make it necessary for persons extending credit to disclose in the contracts, the total cost thereof in dollars and cents in terms of simple annual interest. We have supported the intent of Senator Croll's bills.

We were gratified to note the recommendation of the Royal Commission on Banking and Finance regarding disclosure on credit contracts. As a result the following resolution was passed at our Annual Meeting June 1964:

(I) "WHEREAS CAC has, for a number of years, requested the Government to require that full information be included in all consumer credit contracts; and

WHEREAS many consumers are complicating their purchasing decisions by buying on credit terms without all the factual information necessary to use credit wisely; therefore,

BE IT RESOLVED that CAC request the Government of Canada to implement the recommendation of the Royal Commission on Banking and Finance "that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit granter should be required to express them in terms of the effective rate of charge per year in order that the customers may compare the terms of different offers without difficulty". (Report of Royal Commission on Banking and Finance, page 382)

We are gratified to read in a speech by Mr. W. E. McLaughlin, Chairman and President of the Royal Bank of Canada "Finance charges should be disclosed both as an effective rate of interest and in dollar amounts. Agreed! The chartered banks have nothing to lose and everything to gain by this type of disclosure." (Some Preliminary Thoughts on the Porter Report, Winnipeg, June 10, 1964)

Cost of Consumer Credit:

It is well known that consumers must pay higher rates for credit than business men. We will discuss briefly some of the reasons apparent to our organization.

(1) Consumer loans are small. This increases the cost per dollar loaned. Many reputable credit organizations object to disclosing the rate of charge in terms of simple annual interest because they would be accused of usury. It is unfortunate that many people still cling to the erroneous opinion that all rates should be in the order of 6%. Informed managers of family income should know that the cost of consumer credit includes investigation, collection and bad debts—these are relatively fixed amounts. This means that short term small loans carry a high rate of charge.

(2) Consumer loans are fairly risky, although there appears to be a downward trend in the delinquency rate (Cave-Director, Consumer Research Institute, San Francisco State College, Publication No. 3).

(3) The Federal Small Loans Act sets the loan ceiling too low and this results in higher costs per loan.

Our Association heartily approves the recommendation of the Royal Commission on Banking and Finance regarding small loan rates—the recommendation particularly protects consumers borrowing money between \$1500 and \$5000 from excessive charges. As a result the following resolution was passed at our Annual Meeting, June 1964:

(II) "WHEREAS consumers need protection from excessive charges on small loans:

BE IT RESOLVED that CAC request the Federal Government to implement the recommendation of the Royal Commission on Banking and Finance to continue "the present maximum charges of 2% per month on the first \$300," and to set "a maximum of 1% on all balances from \$300 to \$5,000." (Report of the Royal Commission on Banking and Finance, page 382)"

(4) While most credit granters conduct their business in an ethical manner, we draw your attention to the rates charged by certain dealers particularly in the used car business. We note a Canadian Press release December 6th, 1963, reporting a hearing of the Ontario Select Committee on Consumer Credit. Cecil Davidson, President of the Federation of Automobile Independent Retailers said his organization was:—"Sickened and appalled by the deplorable conditions which permit and propagate an ever increasing number of unscrupulous and unethical dealers in our communities."

(5) More effective competition is needed in the consumer credit field. If competition in this field were more effective it is possible that rates charged consumers would tend to be lower and that the pressure for increased regulations of consumer credit would be reduced—credit organizations strongly oppose increased regulations, judging by press reports.

Roy C. Cave, in Publication No. 3, referred to above, states "Consumers or borrowers are not always aware of the fact that they have an important alternative to sales credit when buying goods on time—i.e. arranging an installment money loan and paying cash for goods. If consumers generally understood this clearly and were able to compare with reasonable accuracy the difference in rates that are charged—which unfortunately they cannot—competition between cash loans and sales credit would be more effective than at present."

Attitude of Consumers to Disclosing Cost of Credit:

There appears to be a new awareness among Canadian consumers of the need to know the true cost of credit. There still remain many borrowers who sign blank contracts, fail to ask the most elementary questions, and never read the fine print. Opposed to this, we read of the crusade of Andre Laurin of the Confederation of National Trade Unions in the small parishes of Quebec aimed at educating the family in every-day finance. Credit Unions are to be congratulated on their educational programs in consumer credit. We note in the *Globe and Mail*, October 6, 1963, the recommendation of the Toronto Board of Education that a pilot program on credit buying be introduced in Toronto schools. A wave of provincial legislative pressure to control consumer credit is expressed in the introduction in a number of provincial legislatures of unconscionable transaction acts and legislation requiring disclosure of credit terms for installment buying—all indicating a quickening interest in consumer protection in the credit field.

Our association has concern for consumers who impulsively enter into instalment sales contracts solicited by door-to-door salesmen or in other places outside trade premises. Such consumers should have time to seek legal advice or financial advice on the fine print and interest terms in the contracts. Therefore, at our annual meeting in June 1964, we passed the following resolution:

(III) WHEREAS consumers are sometimes pressured into signing time-payment contracts outside trade premises; and

WHEREAS some consumers need a 'cooling-off' period to review such contracts; therefore,

BE IT RESOLVED that CAC request the federal and provincial governments to enact legislation making provision for a 'cooling-off' period of three days to allow review of contracts for off-store instalment sales.

Once more we recommend to your serious consideration the three resolutions discussed above. It is our belief that the implementation of these resolutions would improve consumer credit relations, stimulate competition and increase the efficiency of consumer purchasing power.

Now, Mr. Chairman, may I read the supplementary material which goes with the brief?

We have discussed the need for intelligent use of credit in our brief to this committee. In this connection we recommended a very recent study, which I believe is actually in process of being printed. That study is called "Consumer Sensitivity to Finance Rates" by the economists F. Thomas Justin and Robert P. Shay, published by the National Bureau of Economic Research, New York. The study was conducted among people who were Consumers Union subscribers. These participants were interested in credit costs and were probably above average mentality. Data was used from 840 people who had borrowed money on the instalment plan between 1958 and 1960. Two hundred and thirty-four people thought the interest rate was 6 per cent. Only six people of the 234 had paid 6 per cent even roughly.

The report which I read stated that they did not stick strictly to 6 per cent, but that the rate was 5 per cent or 7 per cent, being a difference of an average of about 2 per cent.

Ninety-six of the 234 were charged between 9.5 per cent and 19.49 per cent and 63 persons were charged 19.5 per cent to 49.9 per cent. Some were paying over 50 per cent—Consumers Report, October 1964, and Kiplinger Service for Families, October 1964.

In another place in the brief I did say that in competitive shopping there were variations from one contract to another, in either time or money. It is impossible actually to do comparisons unless one has the per cent per annum and the dollar cost.

The following examples, and these are just examples, confirms this assertion in considering three loans for \$1,500, which is the example given of \$1,500 borrowed in each case:

	Monthly payment	Number of monthly payments	Effective annual interest rate
Loan 1	\$67.70	24	8 per cent
Loan 2	\$49.40	36	12 per cent
Loan 3	\$41.50	48	16 per cent

May I say that I have omitted the decimal point in the effective annual interest rate, because as far as competitive shopping for credit is concerned, it is not necessary to show that.

The formula used for calculating the interest rate is in our pamphlet, "Credit Costs Money". This is commonly used and known as the constant ratio formula.

We brought to your attention our resolution on off-store instalment sales, which is usually door-to-door selling. We discussed this resolution with Mr. Claud Root, president of the Association of Better Business Bureaux. Mr. Root personally approves our suggested waiting or "cooling-off" period to review such contracts because some unwise consumers are so easily pressured into signing time payment contracts. We were interested to learn that reputable direct selling merchants were attempting to raise the standards of door-to-door selling. Apparently, they are very worried about this too.

The Direct Sellers Association has been formed. It is part of the Canadian Manufacturers Association and co-operates with the Better Business Bureau. In addition to this an association of magazine publishers in Toronto now makes it mandatory for their door-to-door salesman to be registered. This is all to the good.

C.A.C. stresses that in our competitive economic system free choice must go hand in hand with knowledge. This is most important for the consumer who is shopping for consumer goods and services which include consumer credit. He is constantly exposed to powerful advertising which fosters selections based on impulse and automatic response rather than rational and critical ones. Careful shopping for credit, and good buying habits, increase real income and lead to improved standards of living.

That is our brief, Mr. Chairman.

Co-Chairman Senator CROLL: Mrs. Brewer, is there anything you would like to add to what has already been said?

Mrs. A. G. BREWER: No, I think this represents our full feeling about credit.

Co-Chairman Senator CROLL: Mr. Otto?

Mr. OTTO: Mrs. Wilson, you have given a lot of thought to this brief, and I wonder if I may ask you whether your association, the Consumers' Association of Canada, has ever broken down the credit buying into rational buying and impulsive buying—what percentage is rational, and what percentage is impulsive buying?

Mrs. WILSON: No, this is something we have not done. People not knowing what they are paying for things represent a certain sector of the impulsive buying public don't you think?

Mr. OTTO: You also said in your prepared statement that you have no brief for people who will sign anything.

Mrs. WILSON: No.

Mr. OTTO: Do you have any idea what percentage of the population you are talking about in this instance?

Mrs. WILSON: I imagine it is a fairly large percentage. The point I want to make is that when two people enter into an agreement both parties have a right to equal knowledge of the contract which they are signing; and whether both parties entering into this contract use the knowledge which is theirs or not is quite irrelevant. It is their right. This is our attitude.

Mr. OTTO: I heartily agree, except that if we say that we hold no brief for those who, in other words, pay no attention to what they are signing, we are talking about 73 per cent of the nation. In fact, we are talking about the problem we are dealing with right here.

Mrs. WILSON: Yes, exactly.

Mr. OTTO: If you break down the credit purchases between rational and impulse, I suggest you will probably find a very high percentage of the dollar spending is in impulse buying. Therefore, what is going to be the result of saying to these people, "You are paying 25 per cent"? Will this stop them?

Mrs. WILSON: I am very glad you have mentioned this, because this gives me an excellent opportunity to say something that is in my mind. Our organization is of the opinion that consumer education in this field is one of the most important things to improve the standard of living in this country. As I said in the supplementary brief, if one uses their buying dollars carefully and the money is spent on consumer credit carefully, the standard of living of this country will be appreciably raised. The only way I know of that we can do this in a free economy is by consumer education. Our organization has been in contact with teachers in the secondary schools, and we have made many appeals to them on this subject, that family financing, the use of consumer credit and money management are all subjects which should be taught in our secondary schools, not only to girls in home economics, but to boys and girls. It seems to me this is a joint responsibility of our organization and the business community, which has a certain ethical obligation in this area too.

Mr. OTTO: Mrs. Wilson, you will agree with me, then, the emphasis should be placed on the seller who actually sells the improper use of credit. I want to bring to your attention that in your little folder you say, in the first part of the last page:

Find out the price at which you can buy the article for cash. Do not be satisfied with the "list" price. This often includes an amount to "knock off" for cash.

Mrs. WILSON: Yes.

Mr. OTTO: Have you ever tried buying a new car for cash?

Mrs. WILSON: I am of the opinion a great many car dealers would much prefer selling a car on credit terms than for cash, because they are going to make money from the sale of the car and the credit contract.

Mr. OTTO: Yes. In other words, if you buy for cash you almost pay more because the salesman gets commission from the finance company if it is a credit contract.

Mrs. WILSON: Yes, but this is not true in all instances. In some appliance firms they will knock an amount off the price for cash. In the case of cars, they are not too interested in selling for cash.

Mr. OTTO: How about refrigerators, air conditioners and stoves?

Mrs. WILSON: It all depends where you are shopping.

Mr. OTTO: I would suggest in your association that the business world is now so set up that part of the profit made by the seller is anticipated from the negotiable paper.

Mrs. WILSON: Yes.

Mr. OTTO: You also mentioned that there is some impulse buying.

Mrs. WILSON: A great deal of impulse buying.

Mr. OTTO: And shopping for credit terms. Presuming that a great deal of this is impulse buying, how is the purchaser going to have a chance to shop around for credit?

Mrs. WILSON: My suggestion is, consumer education. I think impulse buying does not always lead to the best bargain. I think that if people learn to do their job properly as consumers, getting value both in quantity and quality for their dollar, the amount of impulse buying may decrease. A great deal of advertising is aimed at impulse buying and almost automatic buying. This is something we feel is not in the best interests of the public.

Mr. OTTO: Is the advertising aimed at the rational point of view, or at those 73 per cent of people who really do not think about it that much or just are not in a position to think about it?

Mrs. WILSON: Do you not think consumer education is the answer?

Mr. OTTO: I think Mr. Greene will agree with me that some of us lawyers—and I do not know how many others there are present—invariably, in the earlier years of our practice, experience people who will come in and complain that they have bought a car that fell apart before it reached the curb. On looking into it, we found the contract they had signed was just for a piece of junk. After we got them out of the scrape we said, "On no condition must you ever buy another piece of goods or car without coming here for our advice, and we will not charge you anything." Three months later they will come back with another contract signed, and we say, "Why didn't you come to us?" They will say, "It was a very soft talking salesman and he really convinced me." With regard to education, we are presuming we are talking about the rational number of people who will not get themselves into a difficult position that they find themselves in now. Has the association considered going to the seller? In fact, Mr. Chairman, I wonder if I might ask: have we ever had a witness here in the field of selling, telephone canvassing, the buying and selling of negotiable paper—people who have sold water softeners?

Mr. ORLIKOW: Why would they want to come here? They would expose the methods they use.

Mr. OTTO: Have we ever had such witnesses appear before us?

Co-Chairman Senator CROLL: No, but we will have.

Mr. URIE: We will be having the Retail Merchants Association, the Retail Council of Canada and the people of that nature appearing before us.

Mr. OTTO: Having been in the manufacturing business myself and having sold recourse and non-recourse paper, I can tell you there is very little similarity between the actual facts and what the association thinks.

Co-Chairman Senator CROLL: These people will be appearing before us.

Co-Chairman Mr. GREENE: We will be glad to subpoena any of these people.

Mrs. WILSON: Perhaps this off-store instalment sales suggestion we make in our brief might lead to more rational shopping.

Mr. OTTO: You mentioned there is indiscriminate advertising. They do not direct their advertising specifically to the person who can buy the product. They say that everyone must have colour television and a car, whether they can afford it or not. Have you ever given any thought to advertising directed to getting people to borrow money?

Mrs. WILSON: Yes.

Mr. OTTO: Have you ever considered the approximate cost of that advertising to the companies which lend this money? In other words, what percentage of this 18 or 20 per cent is actually absorbed in advertising or convincing people?

Mrs. WILSON: I do not want to discuss this in the context of a firm in case. Here is an advertisement from one of our large respectable stores in Montreal. They are advertising fur jackets. I think you will agree that this is the fur jacket time of the year. You see what the advertisement states down here, and I would repeat that this is a fine, reputable store. It says "No down payment." You buy the jacket and take it home and wear it to your daughter's wedding and the only thing you pay at this point is the tax. That is the sort of thing that leads to impulse buying.

Co-Chairman Senator CROLL: What is the value?

Mrs. WILSON: \$2.00, \$2.50, \$2.99, \$4.25. This is on the instalment plan. These columns state the amount per week.

Mr. ORLIKOW: Does that say how many weeks you have to pay?

Mrs. WILSON: I do not see the number of weeks.

Mr. ORLIKOW: From the point of view of the seller that is a good thing to forget to put in.

Mr. URIE: Does it say anything about a cash price?

Mrs. WILSON: Yes, this is a reputable company and the cash price is down too.

Co-Chairman Mr. GREENE: Why do you say it is a reputable store?

Mrs. WILSON: Well, it is a reputable company. There are some stores who don't give the cash price. I remember being at a meeting of the credit dealers and we said to them at one point—"What is the cash price" of an article and they said they don't do cash business but they do give a couple of doughnuts and a cup of coffee to their customers.

Mr. OTTO: A great deal of money is spent by organizations like H.F.C. and similar organizations in consolidation of loans. When they want to collect the money do they put notices on television or in the paper "Pay your bills," or do they use other means? Would you say it is done mainly by the courts?

Mrs. WILSON: I would say the collection agencies do a great deal and in some cases the firms do it themselves. The tactics of the collection agencies are very firm.

Mr. URIE: You have made a statement in your brief that this matter of consumer credit has been a concern of yours for over the past decade?

Mrs. WILSON: Yes.

Mr. URIE: Now there are three types of credit, basically: cash loans, conditional sales and hire purchase agreements, and retail store credits.

Mrs. WILSON: Yes.

Mr. URIE: Where do you find from your members that the greatest abuses lie?

Mrs. WILSON: I think there are very often abuses in the sale of used cars. I have nothing to confirm this in the way of evidence here today.

Mr. URIE: Is this a conditional sales contract deal?

Mrs. WILSON: In some cases. In most cases the acceptance corporation—or the financing is done by the company itself and then the paper is taken over by the finance company. Professor Ziegler of the University of Alberta wrote a thesis in which he included a section on the protection of the consumer. The name of the thesis was called "The Sellers—Finance and Buyer Relationship" by Professor Jacob Ziegler of the Faculty of Law of the University of

Alberta, and the paragraph of use to us is called "Protecting the consumer". In that section he talks a good deal about cars, and the problems connected with financing cars and he said the greatest difficulties appear to be in the repossession of used cars. He said there are four times as many used cars repossessed as new cars, and in fact in the study he did he found the rate of repossessions was at times as high as 10 per cent of the contracts. He also said that most of these repossessions came from people in lower income brackets who had committed a high percentage of their monthly earnings to pay instalments.

Mr. URIE: Does the study deal with the rates charged?

Mrs. WILSON: I don't know.

Mr. URIE: This is the area where you have had most complaints.

Mrs. WILSON: Yes, and also in this area I would mention that sometimes a contract may be signed to buy an appliance, let us say a refrigerator, and on the same contract there will be a second item purchased, for example a chesterfield. Now the purchaser is paying his monthly instalments and for some reason he cannot continue to pay. This goes on for a while. When repossession takes place the vendor or whoever is at that time holding the contract is able to repossess not only the refrigerator, the first item, but also the chesterfield, so that the ownership of both these pieces of merchandise is the property of the vendor until the last cent has been paid.

Mr. URIE: In other words the instalment payments were not credited to either article.

Mrs. WILSON: No. We were speaking of consumer education and this is another point where our organization will try to help.

Mr. URIE: This can only happen where both items are bought at the one time.

Mrs. WILSON: No, it can be added to the contract.

Mr. ORLIKOW: The Federation of Manufacturers had a series of actual cases where people bought two or three items and having paid two-thirds and more of the total amount found they could not continue and so they lost everything.

Mrs. WILSON: We had a person visit us in our office recently who had a husband who bought everything imaginable on credit. She as the wife was not informed of what was going on. He deserted her and she was left with all this furniture, none of which was paid for, and of course it was repossessed. Her difficulty then was that the difference in the amount of the resale price of the repossessed items and the value which was still owing on the account was her debt. Her husband was gone and she was working as a clerk.

Mr. URIE: But they were only her debts if she signed the original paper.

Co-chairman Senator CROLL: This was in Quebec?

Mrs. WILSON: This was in Ontario. She was hounded by the collection people and finally with the help of social workers she went to court and had the matter settled. A great deal of investigation should be done on all these matters, particularly in the matter of repossession when a portion of the indebtedness has been paid. We should have something in the nature of the hire purchase as in legislation in Britain. I was interested to read the brief of the Retail Council of Canada to the Ontario Select Committee on Credit. They suggested changes in the laws governing repossession when part of the money has been paid and that consideration should be given to the buyer's equity.

Mr. ORLIKOW: They should have a look at what happens to merchandise that is repossessed.

Mrs. WILSON: Yes, and how much they get for it, and how hard they try to get a legitimate price, and how far they credit the person with a fair amount of money.

Mr. ORLIKOW: I agree.

Mr. OTTO: Before we get on to this, Mrs. Wilson, I would like to see your association and this committee look at repossessions from a different angle. As Mr. Orlikow has said the actual repossession is the least important thing, because the whole emphasis in respect of conditional sales now has switched from repossession to the personal note. The emphasis now is on the title to the note because, as you know, notes are very easily collectible. Pressure is applied by means of letters to the employer, and all the other insidious methods of collection are used. With respect to the purchase, for instance, of refrigerators you mentioned that complaints come into your office about double sales.

Mrs. WILSON: Yes.

Mr. OTTO: Have you ever had any complaints about water softeners which were all the go a short while back?

Mrs. WILSON: I shall ask Mrs. Brewer to tell you about the water softeners.

Mrs. BREWER: We have in the past done some investigation into some of these deals which are often consummated under very high pressure at the door. One in which I was personally involved was the combined sale of a deep freeze and a monthly food supply. As the salesman gave it to me the story was a very good one, but I said: "Well, I don't like credit purchases, so how much will it cost me to buy this freezer for cash, and then I can buy my food as I need it?". At this the salesman threw up his hands and said: "Oh, well, if you want to do it that way you might do better at a retail store".

Mrs. WILSON: And if you had entered into that arrangement you would have been bound to one source for shopping for your food?

Mrs. BREWER: Yes, and the whole deal was so wrapped up that you could not tell what you were paying for the freezer itself.

Mr. OTTO: I mention this because it is an example of where the emphasis is in selling today. The prospective purchaser is told that if he pays \$600 for a water softener, plus a service charge, he will save so much on soap in his lifetime, the cost of replacing three pots that will calcify, each of a value of \$3.98, and will not ruin his stomach. Of course, it is not possible to drink enough hard water to put any deposit on one's stomach. This is an example of what is called the spiel which, I might say, was composed by a psychiatrist in Boston. I saw a copy of this spiel, and it used every facet of persuasion including hypnosis, so that in the purchaser's mind, when the salesman is through talking, there is no doubt in the world but that it is a great purchase.

How are you going to get that purchaser—who is by this time a captive purchaser—to shop around for credit, or even to get him to rationalize, assuming that you can educate him?

Mrs. BREWER: We might make this point here, that we do not propose to make our Government or this association the custodians of the consumer. The consumer has to use his own intelligence in shopping. We cannot protect him from his own folly, nor do we propose to do so. We want to make as rich a donation as we can to general education in the use of money. The thing that we are deeply concerned about now is whether the consumer will make use of the information as it is made available to him. In other words, we think that a contract should be expressed in terms so simply that the man standing in front of the counter waiting for his bill to be made out, or his charge account to be approved, can compare the cost of shopping at this shop with the cost of shopping at that one, and whether the conditions of payment are comparable in terms of time and amount.

Mr. OTTO: Mrs. Brewer, I want you to try to explain this situation; as you know, according to the law of Ontario every car purchased second hand from a dealer must bear a certificate of road worthiness. Yet, every single used car dealer, after he has sold the car, has on the receipt or the conditional sales contract, in type at least a quarter of an inch high, the words: "This car is not roadworthy". That has not injured the used car sales one bit. I am talking about the certificate that you get when you buy a secondhand car. It will say: "This car is not roadworthy".

Co-Chairman Senator CROLL: Mr. Otto, there were three points made in the brief presented by the Consumers' Association, and I think we ought to get back to them and discuss them. What you are speaking about, of course, is vital and important, and we will deal with it when we have the automobile people before us.

Mr. OTTO: Mr. Chairman, I am questioning the emphasis on education. That is why I am asking how they are going to prove that education will be even a partial solution. The Consumers' Association puts a great deal of emphasis upon the aspect of education. I am wondering if they have really investigated whether it would justify the amount of energy that might be put into that aspect of this whole problem.

Co-Chairman Senator CROLL: Mr. Otto, where education falls down then legislation will help, if this committee comes to that conclusion, and that is the general idea. It is our purpose to hear them, and to consider what recommendations we can make.

There were three suggestions in this brief. We have had them before, but this association makes a good point of them, and I suggest we stay with them. These other matters come within the purview, perhaps, of the provincial Government rather than the federal Government.

Mr. URIE: Mrs. Wilson, you mentioned a few minutes ago the necessity for comparability in rates. You have, in your first resolution, recommended that in addition to the dollar rate—

Mrs. WILSON: Yes, that the per cent per annum should be shown.

Mr. URIE: Yes, that the per cent per annum should be shown. Is there a formula that is applicable to all transactions?

Mrs. WILSON: Yes, I think there are certain formulae that have been worked out. The constant ratio formula is one, and there are others. I think that the Government using the Department of Justice is far better able to set them down than we are, and to say whether one is better than the other. But, certainly all the formulae that I have seen result in only fractional differences. So far as comparability is concerned we are not bothered about getting it down to the decimal point. To have it within one per cent is all we need for the purposes of comparability. However, there are several formulae.

Mr. URIE: The constant ratio formula is one that is used frequently by the credit unions.

Mrs. WILSON: Yes, the constant ratio formula is the one that is most commonly used, and the Federal Reserve Bank of the United States suggests it as a suitable formula. They do not suggest that it is the only one, but they suggest it as one.

Co-Chairman Senator CROLL: Mrs. Wilson, as I recall it, when you made your presentation to the Royal Commission on Banking and Finance the point you made was—there was a general discussion about formulae and how you could fix rates and that sort of thing, and the point you made, if I recall it—and you can correct me if I am wrong—was that there has to be a provision for a tolerance, as you put it, of one-half or one per cent.

Mrs. WILSON: That is right.

Co-Chairman Senator CROLL: That was in the presentation first made by the Consumers' Association; is that correct?

Mrs. WILSON: That is correct.

Co-Chairman Senator CROLL: It was as a result of that that they came up with the recommendation that there should be disclosure as to interest and as to the dollar amount; is that correct?

Mrs. WILSON: Yes. The point about it can be found in the case that I gave you in the supplementary material. In one case it was 8 per cent, in another it was 16 per cent, and in the third it was 12 per cent. Those are specifically big differences. But, if the figures were 8.3 per cent and 11.9 per cent, and so forth, I do not think it would have added anything.

Mr. URIE: Those are actual cases?

Mrs. WILSON: Yes, but I deliberately left off the decimal point because I do not think it is relevant so far as that is concerned.

Mr. URIE: You mentioned a few minutes ago the brief of the Retail Council of Canada presented to the Ontario Select Committee. You will recall that in that brief it was said time and time again by counsel appearing on behalf of the Retail Council that it was impossible to apply these rates in the case of budget accounts or, at least, accounts involving a cycle credit situation.

Mrs. WILSON: Here is the T. Eaton Company, which is a member of the Retail Council, who suggest in their own pamphlet a rate of $1\frac{1}{2}$ per cent on the unpaid balance.

Mr. URIE: And this is what you want in order to satisfy your desire for comparability?

Mrs. WILSON: That is all we want.

Co-Chairman Senator CROLL: She does want $1\frac{1}{2}$ per cent, because that is considerable.

Mrs. WILSON: I want to be able to decide whether one store charges one per cent, and the other $1\frac{1}{2}$ per cent.

Mr. URIE: How do you suggest, then, that you ensure that all charges relating to this credit transaction are in fact included in that percentage which is general? This is the objection which was raised by the Retail Council.

Mrs. WILSON: The Retail Council claimed that if they force the showing of this $1\frac{1}{2}$ per cent, let us say, the cash price will be raised and the $1\frac{1}{2}$ will be buried in the cash price. This is their story.

Mr. URIE: Then it becomes a battle between merchants as to interest rates.

Mrs. WILSON: There are two things. At the beginning I think competition will take care of this matter. If you have exactly the same model at the same figure being sold and one store puts the cash price at \$50 higher than the other, the people will go to the lower store. I think competition will take care of it. When some stores realize that the whole thing is buried in the cash price they may be very smart and put the real cash price and suggest to the customer that he go to the loan company to get the money and buy it from the store at the cash price. There are all sorts of ways.

Mr. URIE: It is an important thing in relation to their brief, because they are always saying they receive only the cash and they do not make any money out of this in any event.

Mrs. WILSON: When one realizes the amount of money spent on advertising credit schemes and so forth, one appreciates that somehow or other they must be making money. If you have listened to the radio in the last few weeks, you will have noted there is one credit company which has been

advertising like this: "We keep open 24 hours a day; if you need credit, day or night, come to us". Therefore, the selling is very hard. Mrs. Brewer has suggested that people may need credit day or night, as a man may have had a quarrel with his wife and may need credit very suddenly.

Mr. URIE: Perhaps to go to a night club? Do you think the recommendation of the Royal Commission, which suggested that perhaps on small contracts where the administrative costs are high, a flat rate service charge of, say \$1, might be laid down for administrative costs?

Mrs. WILSON: May I give you a case on this? Industrial Acceptance Corporation of America printed the following example in *Merit-News*, their publication. If there is a balance of \$20 owing on a radio and this should be paid in five equal instalments, five months, the amount of charge for this service would be \$2.25. If it is paid in equal instalments over five months, actually it is roughly \$10 over five months and not \$20, because of the diminishing capital. In that case, actually the person is paying \$2.25 for the use of \$10 for five months. Is that clear? This works out at 54 per cent. In all probability, as I have said in the brief, the cost of setting up that account and of the other things involved, would be \$2, so the interest proper is probably only 25 cents, but it appears as 54 per cent.

Now I come back to consumer education once more. I feel that people should be encouraged to realize that if one wants these extremely small loans they are an expensive business and not to be used, if at all possible, that they should get the money in some other way.

Co-Chairman Senator CROLL: Mr. Urie, what was the recommendation on that point?

Mr. URIE: The recommendation from the Royal Commission was as follows:

On small contracts the administrative costs are high relative to the amount of credit and inevitably involve high annual rates. It might be advisable to allow a flat amount service charge of, say, \$1.00 per contract and to exclude this portion of the charge from the amount required to be expressed in annual rate form. If this is not feasible, the main purpose of the legislation could be achieved by exempting all amounts under \$50 from its provisions, while preventing evasion through the writing of numerous small contracts below the exemption limit.

That is taken from page 382, footnote No. 4.

Mrs. WILSON: I have noted that in other countries—for instance, in the United States in some states—this legislation does not apply below \$50. In the case of this sort of loan, it is a pity people have to borrow \$20 for five months. There should be some special arrangement made for these small loans. But our organization has no specific recommendation on this point, although we are very aware of it.

Mr. URIE: What is your own personal view of this type of thing?

Mrs. WILSON: I think that anything below \$50 should not be included, as suggested by the Royal Commission.

Mr. URIE: Rather than a flat rate for administrative costs?

Mrs. WILSON: It seems to me that would be better, but this is purely a personal view and our organization has no recommendation on it.

Mr. URIE: Your policy with respect to cash loans is the same as that of the Royal Commission?

Mrs. WILSON: Exactly the same as that of the Royal Commission. I think that nowadays \$1,500 is much too low. I think the ceiling is so low that it means people have to secure a second loan, starting again at 2 per cent per month.

Mr. URIE: You may not know that Mr. MacGregor the former Superintendent of Insurance appeared before us and he expressed his own personal view that perhaps \$2,500 would be more realistic, rather than \$5,000. What is your view?

Mrs. WILSON: We approve \$5,000.

Mr. URIE: Is that the recommendation you made before the Porter Commission?

Mrs. WILSON: No. This is in our resolution. We simply accepted the Royal Commission's recommendation on that point. We felt that \$1,500 is much too low.

Mr. URIE: Mr. Chairman, I have no further questions.

Co-Chairman Senator CROLL: Mr. Basford, your friend Ziegler came up here for attention while you were absent. The book he has written was quoted rather extensively by Mrs. Wilson.

Mr. BASFORD: I remember that Ziegler was very helpful to us. He is a former associate of mine.

Co-Chairman Senator CROLL: Mrs. Wilson, what have you in mind on the "cooling off period" of three days?

Mrs. WILSON: There has been legislation before the British Parliament. I do not know whether it has passed, but it has been before them. I also read a press report that the former attorney general in Ontario was proposing this sort of legislation, to provide for a cooling off period. I do not know the number of days proposed, but the principle was the same.

Our organization is anxious to protect the consumers and it seems to me that for that purpose this time should be allowed. It would prevent, for instance, a man at the age of 82 taking a ten years' magazine subscription and things like that.

Co-Chairman Senator CROLL: Or taking a series of dance lessons.

Mrs. WILSON: Yes. These people need to be protected from themselves.

Mr. OTTO: I think this will be most effective, and much better than all the education, provided this three-day period is not circumvented by very sharp people who could circumvent it in turn.

Mrs. WILSON: It seems to me that Ziegler in his thesis suggested that as one alternative before a contract should become legal both husband and wife should sign; but it seems to me that this would be a difficult thing. He also suggested the cooling off period. Professor Ziegler approved the waiting period.

Co-Chairman Senator CROLL: I think the British legislation aims at the salesman who sells something to the wife while the husband is away. When the husband comes home at night, she says: "Dear, look at what I bought, it was a bargain." Then the husband hits the roof. The feeling then was that if, at that moment, she can convince the husband that he should sign the contract, it would be all right, but that they could repudiate it. They felt that his signing of the contract, even before the expiration of the time allowed for cooling off, would be good enough. Do you not like that?

Mrs. WILSON: We suggest two ways. This gives time for consideration. You notice we say "off-store premises". To come back to the purchase of a used car, if Mrs. Jones goes to a used car lot and purchases a disreputable car, then if her husband is annoyed with her for having done so, it can be said that she did buy it on a used car lot. I think the vendor has a real point there, in that this car is taken out of circulation. Someone might have come along ten minutes later and wanted that car. Therefore we say definitely "off-store premises".

Mr. CLANCY: I am not sure about this. Supposing I buy from a door-to-door salesman; is it not a fact that after 30 days, if I express the goods back to the company, I have no further obligation?

Mrs. WILSON: Oh, if you sign a contract, I think you are liable for every cent.

Co-Chairman Mr. GREENE: I understand that in Saskatchewan and Alberta they have that kind of law.

Mr. CLANCY: I understand that if I pay the express back, I am no longer liable.

Mrs. WILSON: This, of course, is the provincial end. So far as I am concerned, you are liable every cent; but you are not liable if you ship back within 30 days in the province of Saskatchewan.

Mr. CLANCY: That is correct; as long as I get it back within 30 days.

Mrs. WILSON: I know of one case where a man bought an educational course by mail, and with it bought some books. The books arrived at the door, as the result of having been solicited by a man, and the books were never opened. The buyer simply shipped them back. The company threatened to sue for months afterwards, but eventually they did discontinue. Probably Saskatchewan has a different law. However, I think in some cases certainly, once you sign the contract it is binding.

Co-Chairman Mr. GREENE: Mrs. Wilson, I wonder, having regard to your educational views, if it is not a fact that the very people who need the protection are the ones who won't benefit in education?

Mrs. WILSON: Well, that is true, isn't it?

Co-Chairman Mr. GREENE: As far as I can see, that is what negatives that aspect. The Ph.d.'s probably don't need you at all, and the very people who do need you won't understand your educational program, anyway.

Mrs. WILSON: Well, that is what ministers say about people going to church—that they are talking to the wrong people. Nevertheless, if consumer education were a compulsory subject in our secondary schools, I think it would be beneficial, and our young people could become accustomed to thinking in terms of costs and mortgages, and money management. These matters are becoming increasingly important, and both boys and girls should have this education. We have been bringing this to the attention of some of the schools.

Co-Chairman Mr. GREENE: You think there should be legislation in this area?

Mrs. WILSON: Exactly. If this type of education is introduced into our secondary schools, since our young people are marrying younger every year, surely it is increasingly important, not only for consumer credit legislation, but in many other areas, as far as the standard of living and family life in Canada are concerned.

Co-Chairman Mr. GREENE: Mrs. Wilson, you have done a great deal of research in your association with respect to the question of disclosure, which I take to be one of your prime directions. What have you found, or what are your views, with regard to the ability of the sellers of credit to avoid disclosure legislation, by means of bonuses, and so forth? Do you feel that legislation can be made enforceable in this area?

Mrs. WILSON: I think this legislation, like every other legislation, has absolutely no validity unless it is enforceable, just as in the case of the Small Loans Act. It is people like Mr. MacGregor who make legislation useful, isn't it? I would hope that if there were legislation there would be proper provision for enforcement.

Co-Chairman Mr. GREENE: But you have not any representations which you have come up with as a result of your investigations, which might help the

committee in regard to preventing the avoidance of disclosure legislation, and how that legislation should be enforced?

Mrs. WILSON: Well, the disclosure per annum should be on all contracts, as also should the cash price and the dollar cost of the instalment contract.

Co-Chairman Mr. GREENE: I was thinking more of legal ways in which they will figure out means of avoidance, such as by bonuses, and things of that nature. I do not know whether your association has any representations in these areas, or not. What you are saying, I think, is a philosophical view that we all like, but the doing and the saying are two different things, as we have seen in our evidence here from different organizations.

Mrs. WILSON: They could give bonuses in certain instances, of course.

Co-Chairman Mr. GREENE: There are so many ways of avoiding this kind of legislation. It is passed, and then six months later the retailers and sellers of credit are going their own merry way by figuring out legal ways of avoiding it.

Mrs. WILSON: The only thing I can say is that we have the advantage of seeing in the United States this sort of legislation we are asking for, credit legislation which does set the per cent per annum, which makes the charge. In all I have read, it is quite definite.

Mr. URIE: In particular, is that the New York legislation?

Mrs. WILSON: The New York legislation; and there are 12 other states in the union which have similar legislation.

Mr. URIE: Do you know offhand the name of those states?

Mrs. WILSON: I could give you a list of them.

Mr. URIE: I wish you would.

Mrs. WILSON: I have them here, and I will give them to you after.

Mr. URIE: Have you come across Senator Douglas' "Truth in Lending" bill?

Mrs. WILSON: Oh, yes, and we are very strong supporters.

Mr. URIE: Do you feel that the method evolved in his bill to deal with the problems of revolving credit and budgetary plans, and so on, is workable?

Mrs. WILSON: No, I cannot say that, because I don't know it thoroughly enough, but I do feel, as far as Canada is concerned, that on the amount of a purchase, when the amount to be paid per month is ascertained, it is just as easy to figure it in percentage. For instance, the T. Eaton Company is doing it.

Co-Chairman Senator CROLL: Yes, the T. Eaton Company is doing it.

Mr. URIE: But in point of fact the percentages work out different every month, do they not?

Mrs. WILSON: No.

Mr. URIE: But in many stores, is it not so, having read the transcript of evidence thoroughly, that the percentage in any given month may vary by reason of elements of cost injected in the monthly instalments? In other words, if a large monthly instalment is included the actual element of cost may be low, and the actual amount applied to reduction of principal may be high.

Mrs. WILSON: Well, actually the way the T. Eaton Company does it just simply on the outstanding balance each month.

Mr. URIE: One and a half per cent?

Mrs. WILSON: One and a half per cent, it is just as simple as that.

Mr. URIE: Of course, I am not supporting or rejecting it.

Mrs. WILSON: There may be other concerns who do this, but the T. Eaton Company is publishing its rates, and I gave them as an instance.

Mr. URIE: What you are saying is that at the beginning of a contract, as for instance under the Douglas bill, you have a monthly amount that will be paid, the monthly rate that will be charged, and the annual over the whole period. Well, there will never be any change in this system, it is one and a half throughout?

Mrs. WILSON: Yes.

Mr. URIE: Well, that is not the practice prevailing in most retail organizations.

Mrs. WILSON: I was going to suggest that probably there should be some simplification in the types of credit, which can be *ad infinitum*, so that people buying on credit can do some intelligent shopping.

Mr. URIE: Have you discussed these problems with any large retail organizations?

Mrs. WILSON: Yes.

Mr. URIE: What do they say about the additional cost involved to them in doing what you suggest?

Mrs. WILSON: They say that the chief thing is that it is impossible to do.

Mr. URIE: Why do they say it is impossible?

Mrs. WILSON: I have never been able to get it from them. However, I am very interested in the fact that some firms do it. This is the point.

Mr. OTTO: Just one question on that very same point. Has your association ever tried to break down what percentage of the profits of department store sales now comes from financing and what percentage comes from the sale of goods?

Mrs. WILSON: We have not done this. Would it be possible to get such figures from a department store? I do not think this is published.

Mr. OTTO: I would suggest to you it can be done. It might take a little while and might prove expensive, but I would suggest to you with regard to department store sales that a greater part of the profits come from financing than from the sale of goods. In fact, they have switched the emphasis from being a sales outlet to a financing outlet.

Mrs. WILSON: But they will tell you in very definite terms, if you ask them, "this is merely for service." I hope you realize that in the case of a charge account which is under 30 days there is no charge at all. I often wonder, are we all helping to pay for the carrying of them? After all, somebody pays for the use of the money, and I suspect we all do.

Mr. OTTO: Do you use any professional research company to do your work for you?

Mrs. WILSON: No. We are a voluntary organization, with no money; but we have among our membership some extremely competent analysts and people with accounting ability, and we do have everything we say and do pretty thoroughly checked. We do not have any professional help, but we do know some nice professional people. Actually, the department store business, as between 1964 and 1963, was \$419 million as against \$387 million. It did not go up nearly as greatly as the banks. The banks' was \$2,186 million as opposed to \$1,780 million. It is the banks that have made a big stride.

Mr. URIE: One of the major points put forward by retail stores for not using a percentage is that, "This is not money being loaned; this is a service being performed; and the sooner you pay cash the happier we shall be." Have you discussed this aspect?

Mrs. WILSON: We speak of the services and all things put together, and the rate of charge for having the use of this article ahead of time. This is a rate of charge which can be expressed in percentage terms. They get very

annoyed when we call it interest. They use this term "rate of charge," and that includes all costs. Incidentally, in connection with this we did write to Dean Rand.

Mr. URIE: The dean of the law school of the University of Western Ontario?

Mrs. WILSON: Yes. He said in his letter of reply that most people consider all these costs involved are part of the rate of charge. Of course, this is the attitude which I think the royal commission has expressed too.

Co-Chairman Mr. GREENE: There is one thing there with regard to interest. You say you want it stipulated as to rate. You do not seem to distinguish between annual, monthly and weekly rate.

Mrs. WILSON: The simple, annual interest rate. If you call it $1\frac{1}{2}$ per cent per month, we multiply it by 12.

Co-Chairman Mr. GREENE: But we are trying to enlighten the consumer, to make the game of shopping a fair one.

Mrs. WILSON: It should be extended. I suspect that $1\frac{1}{2}$ per cent per month should be extended to 18 per cent.

Mr. URIE: If that truth in lending formula were used that would be shown, the monthly rate and the simple annual rate.

Co-Chairman Mr. GREENE: I want to find out the views of the Consumers' Association.

Mrs. WILSON: Our resolutions all say "annual rate." When we have $1\frac{1}{2}$ per cent per month we hope people have enough brains to extend it to 18 per cent per annum.

Mr. URIE: One other thing. I understand that your association is for truth in lending and disclosure, and it is also for the limitation of interest rates?

Mrs. WILSON: No. This is an area in which we have no—

Mr. URIE: —views?

Mrs. WILSON: No, but we do feel that if the rate of charge were disclosed it would stimulate competition, and that competition would give us all a healthier situation in our economy. After all, we do live in a democratic society, and it would increase efficiency and might lower the rates. Except that we support the small loans bill, we do not have any policy on the matter of the restricting of rates. We are simply asking for knowledge, and with that knowledge we expect we will improve the situation as far as rates are concerned.

Mr. URIE: You are not for restricting rates, except in the case of small loan rates up to \$5,000?

Mrs. BREWER: At this moment we are not asking for further restrictions. I think we might also point out there are those who continue to fight disclosure, and they make themselves vulnerable to public distrust, and this leads to requests for limitations. Full disclosure works for the benefit both of the customer and the ethical agent.

Co-Chairman Mr. GREENE: Are there any other questions?

Mr. McCUTCHEON: I had a question, but I think Mrs. Wilson has answered this already. However, I would refer to it again. This is the matter of interest rates. Some types of durable goods do not have the lifetime others do. Does your association recognize the fact that in behalf of the producer and seller there should be different interest rates charged, varying with the different type of commodity which is for sale? If so, your standard interest table here might get to be very cumbersome.

Mrs. WILSON: I do not quite get your point.

Mr. McCUTCHEON: For example, let me refer back here. You have three loans of \$1,500 each.

Mrs. WILSON: Yes.

Mr. McCUTCHEON: Were those cash loans? Was there security behind them?

Mrs. WILSON: No, these were unsecured loans.

Mr. McCUTCHEON: What I am getting at is this, for example, a machine that was going to wear out would be much more risky to lend money on over a period of 48 months than it would be for 12 or 24 months?

Mrs. WILSON: All we are saying is that we should know what it is costing. We should know it is costing twice as much, let us say, for 48 months as for 24 months. We are not suggesting that the rate is wrong, not at all; we are simply saying we want to know what it is costing us to do it one way or the other. In other words, in this case would it be wiser to go to a credit company—suppose it is a piece of machinery and the vendor is keeping the paper himself. Would it be wiser to have that loan—let us say it is a decreasing loan for 48 months—from the person we buy it from, or would it be wiser to go to a small loan company and borrow the \$1,500 at the rate which they would charge? This is the kind of thing. We want to be able to compare. This is all we are trying to say. It seems to me this is just such a reasonable matter.

Co-Chairman Mr. GREENE: Ladies, Mrs. Wilson and Mrs. Brewer, I would like to thank you very much for your appearance here today, for your courtesy in giving your evidence and the very enlightening evidence you have given us. It will be a great help to us in our deliberations, and I only hope we may find some Solomon-like solution which will solve everyone's problems.

Co-Chairman Senator CROLL: Next Tuesday the Canadian Chamber of Commerce will be here.

The committee adjourned.

APPENDIX "E"

CONSUMERS' ASSOCIATION OF CANADA

SUBMISSION

TO THE

JOINT COMMITTEE OF THE HOUSE OF COMMONS AND SENATE

ON

CONSUMER CREDIT

*Submission to the Joint Committee of the House of Commons and Senate
on Consumer Credit on behalf of the Consumers' Association of Canada,*

October 20th, 1964

Gentlemen:

The Consumers' Association of Canada appreciates this opportunity of discussing consumer credit. The use of consumer credit has concerned our Association for the past decade and we welcome this investigation undertaken by your committee.

Increasing Use of Consumer Credit

Consumer credit is a permanent and important part of our economy. The use of credit to purchase consumer goods continues to increase. Figures published by the Dominion Bureau of Statistics, September 1964 (11-001) confirm this trend.

"End of June balances outstanding in millions are:

	June 1964	June 1963
Sales finance companies for consumer goods	\$ 942	\$ 865
Small loan companies for cash loans	786	709
Small loan companies for instalment credit	49	52
Department stores	419	387
Furniture and appliance stores	188	186
Chartered banks for personal loans	2168	1770

These figures only give us part of the picture. No absolute total of consumer credit is available. For certain purposes fully secured loans granted by banks and life insurance companies may not be considered as outright indebtedness. On the other hand, certain avenues of credit are not surveyed, i.e. service credit (doctors, dentists, utility companies, hotels, etc.) and loans between individuals." (D.B.S. December 1963, 61-004).

Fear that this continuing increase in the use of credit had reached dangerous proportions is allayed by a study conducted by the Royal Commission on Banking and Finance. This study covered 1221 homes. The Commission reported—"The survey does not indicate that consumers generally are in an over extended financial position" (Report of Royal Commission on Banking and Finance, page 21).

Incomes are rising and average householders have increased discretionary incomes. This places them in improved positions to carry debt loads. D.B.S. Statistics indicate that average wages in the manufacturing industry increased over 40% between 1953 and 1963. When corrected for inflation by the Consumer Price Index, a true increase in the volume of purchasing power of approximately 24% was shown.

Intelligent Use of Credit

It is in the national interest that consumers should make the best possible use of their incomes for the well being of their families. Canadians using consumer credit should do so on an informed basis. This becomes increasingly urgent with the increasing use of credit.

The confusion in regard to consumer credit is well stated in the opening section of the Truth-in-Lending Bill recently rejected by the California Legislature as reported by the "Legislative News Letter" Association of California Consumers April 19, 1963.

"The Legislature finds that the consumer or borrower seeking credit is faced with a myriad of finance rates due to differing methods of stating such rates, making comparison of different rates difficult without undertaking complex mathematical steps to convert different stated rates to a common denominator. Therefore to enable consumers or borrowers to *comparison shop* when seeking credit and to be aware of how much credit is costing them *it is necessary to establish a single standard method for stating finance rates.*"

Consumer credit is a service with a price that can and should be shopped for carefully. Many consumers are unaware of what they are paying for it. There are two yardsticks available for comparing credit costs—the dollar cost and the cost expressed in terms of simple annual interest—which is a per unit price—per cent per annum. Professor E. P. Neufelt of the Political Science Department of the University of Toronto said at our Consumers' Conference June 1962:

"Reducing consumer ignorance over the nature of consumer credit contracts is not merely desirable but highly necessary."

There are difficulties in computing financial charges in terms of percentage calculations. Our organization endorses the solution offered by Senator Croll that the Government of Canada control the manner of calculations and degree of accuracy in computing the financial charges and calculating the cost in terms of simple annual interest. The purpose of securing per annum rates is to enlighten the consumer and for this purpose the rate need be correct to only $\frac{1}{2}\%$ to 1%. *Wherever there are variations from one contract to another in either time or money it is impossible to do comparative shopping for credit unless the cost is expressed in terms of simple annual interest.* However, it is evident that both yardsticks are necessary for comparative shopping in most cases, the dollar cost and per cent per annum.

Canadian retail merchants consistently insist that it is quite impractical and almost impossible to express rate of charge in percentage terms. Despite this, we note that New York State has had credit service charge legislation since 1957 based on percentage calculations. (Consolidated laws of New York Annotated Book 40, Section 404). Since that time laws to limit interest charges on instalment purchases and/or revolving credit have been passed in 12 states (Buying Guide Consumer Reports Vol. 28, No. 12).

We note with appreciation a booklet on Revolving Credit distributed by a Montreal department store which states "Terms of payment provide that you receive a listed statement of purchases along with sales checks, payment slips, etc. The account being payable within fifteen days from the date the statement is mailed. There is a service charge of $1\frac{1}{2}\%$ per month calculated on the previous month's balance" (Revolving Credit General Information, T. Eaton Co. of Montreal).

In August 1962, CAC presented a submission to the Royal Commission on Banking and Finance stating their view that legislation making full disclosure of finance charges expressed in terms of simple annual interest obligatory on all credit contracts would be valuable to Canadian welfare.

Senator David Croll has presented four bills on this subject. The object of these bills was to make it necessary for persons extending credit to disclose

in the contracts, the total cost thereof in dollars and cents in terms of simple annual interest. We have supported the intent of Senator Croll's bills.

We were gratified to note the recommendation of the Royal Commission on Banking and Finance regarding disclosure on credit contracts. As a result the following resolution was passed at our Annual Meeting June 1964:

(I) "WHEREAS CAC has, for a number of years, requested the Government to require that full information be included in all consumer credit contracts; and

WHEREAS many consumers are complicating their purchasing decisions by buying on credit terms without all the factual information necessary to use credit wisely; therefore,

BE IT RESOLVED that CAC request the Government of Canada to implement the recommendation of the Royal Commission on Banking and Finance "that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit granter should be required to express them in terms of the effective rate of charge per year in order that the customers may compare the terms of different offers without difficulty". (Report of Royal Commission on Banking and Finance, page 382).

We are gratified to read in a speech by Mr. W. E. McLaughlin, Chairman and President of the Royal Bank of Canada "Finance charges should be disclosed both as an effective rate of interest and in dollar amounts. Agreed! The chartered banks have nothing to lose and everything to gain by this type of disclosure." (Some Preliminary Thoughts on the Porter Report, Winnipeg, June 10, 1964)

Cost of Consumer Credit

It is well known that consumers must pay higher rates for credit than business men. We will discuss briefly some of the reasons apparent to our organization.

(1) Consumer loans are small. This increases the cost per dollar loaned. Many reputable credit organizations object to disclosing the rate of charge in terms of simple annual interest because they would be accused of usury. It is unfortunate that many people still cling to the erroneous opinion that all rates should be in the order of 6%. Informed managers of family income should know that the cost of consumer credit includes investigation, collection and bad debts—these are relatively fixed amounts. This means that short term small loans carry a high rate of charge.

(2) Consumer loans are fairly risky, although there appears to be a downward trend in the delinquency rate (Cave-Director, Consumer Research Institute, San Francisco State College, Publication No. 3).

(3) The Federal Small Loans Act sets the loan ceiling too low and this results in higher costs per loan.

Our Association heartily approves the recommendation of the Royal Commission on Banking and Finance regarding small loan rates—the recommendation particularly protects consumers borrowing money between \$1,500 and \$5,000 from excessive charges. As a result the following resolution was passed at our Annual Meeting, June 1964:

(II) "WHEREAS consumers need protection from excessive charges on small loans:

BE IT RESOLVED that CAC request the Federal Government to implement the recommendation of the Royal Commission on Banking and Finance to continue "the present maximum charges of 2% per month on the first \$300,"

and to set "a maximum of 1% on all balances from \$300 to \$5,000." (Report of the Royal Commission on Banking and Finance, page 382)".

(4) While most credit granters conduct their business in an ethical manner, we draw your attention to the rates charged by certain dealers particularly in the used car business. We note a Canadian Press release December 6th, 1963, reporting a hearing of the Ontario Select Committee on Consumer Credit. Cecil Davidson, President of the Federation of Automobile Independent Retailers said his organization was:—"Sickened and appalled by the deplorable conditions which permit and propagate an ever increasing number of unscrupulous and unethical dealers in our communities."

(5) More effective competition is needed in the consumer credit field. If competition in this field were more effective it is possible that rates charged consumers would tend to be lower and that the pressure for increased regulations of consumer credit would be reduced—credit organizations strongly oppose increased regulations, judging by press reports.

Roy C. Cave in Publication No. 3, referred to above, states "Consumers or borrowers are not always aware of the fact that they have an important alternative to sales credit when buying goods on time—i.e. arranging an instalment money loan and paying cash for goods. If consumers generally understood this clearly and were able to compare with reasonable accuracy the difference in rates that are charged (which unfortunately they cannot) competition between cash loans and sales credit would be more effective than at present".

Attitude of Consumers to Disclosing Cost of Credit

There appears to be a new awareness among Canadian consumers of the need to know the true cost of credit. There still remain many borrowers who sign blank contracts, fail to ask the most elementary questions, and never read the fine print. Opposed to this, we read of the crusade of Andre Laurin of the Confederation of National Trade Unions in the small parishes of Quebec aimed at educating the family in every-day finance. Credit Unions are to be congratulated on their educational programmes in consumer credit. We note in the *Globe and Mail*, October 6, 1963, the recommendation of the Toronto Board of Education that a pilot programme on credit buying be introduced in Toronto schools. A wave of provincial legislative pressure to control consumer credit is expressed in the introduction in a number of provincial legislatures of unconscionable transaction acts and legislation requiring disclosure of credit terms for instalment buying—all indicating a quickening interest in consumer protection in the credit field.

Our Association has concern for consumers who impulsively enter into instalment sales contracts solicited by door to door salesmen or in other places outside trade premises. Such consumers should have time to seek legal advice or financial advice on the fine print and interest terms in the contracts. Therefore, at our Annual Meeting in June 1964, we passed the following resolution: (III) "WHEREAS consumers are sometimes pressured into signing time-payment contracts outside trade premises; and

WHEREAS some consumers need a 'cooling-off' period to review such contracts; therefore,

BE IT RESOLVED that CAC request the Federal and Provincial Governments to enact legislation making provision for a 'cooling-off' period of three days to allow review of contracts for Off-store Instalment Sales."

Once more we recommend to your serious consideration the three resolutions discussed above. It is our belief that the implementation of these

resolutions would improve consumer credit relations, stimulate competition and increase the efficiency of consumer purchasing power.

We have discussed the need for intelligent use of credit in our brief to this committee. In this connection we recommended a very recent study. It is Consumer Sensitivity to Finance Rates by the economists F. Thomas Justin and Robert P. Shay, published by National Bureau of Economic Research, N.Y. The study was conducted among people who were Consumers Union Subscribers. These participants were interested in credit costs and were probably above average mentality. Data was used from 840 people who had borrowed money on the installment plan between 1958 and 1960. Two hundred and thirty-four people thought the interest rate was 6%. Only 6 people of the 234 had paid 6% even roughly. Ninety-six of the 234 were charged between 9.5% and 19.49% and 63 persons were charged 19.5% to 49.9%. Some were paying over 50% (Consumers Report October 1964—and Kiplinger Service for Families, October 1964).

Earlier we stated that it is impossible to do competitive shopping for credit when there are variations from one contract to another in time or money. The following example confirms this assertion in considering three loans for \$1,500.

	Monthly payment	Number of monthly payments	Effective Annual Interest Rate
Loan 1	\$67.70	24	8%
Loan 2	\$49.40	36	12%
Loan 3	\$41.50	48	16%

The formula used for calculating the interest rate is in our pamphlet, "Credit Costs Money"—this is commonly used and known as the Constant Ratio Formula.

We brought to your attention our resolution on Off Store Installment Sales, which is usually door to door selling. We discussed this resolution with Mr. Claud Root, president of the Association of Better Business Bureaux. Mr. Root personally approves our suggested waiting or "cooling off" period to review such contracts because some unwise consumers are so easily pressured into signing time payment contracts. We were interested to learn that reputable direct selling merchants were attempting to raise the standards of door to door selling. The Direct Sellers Association has been formed. It is part of the Canadian Manufacturers Association and co-operates with the Better Business Bureau. In addition to this an association of magazine publishers in Toronto now makes it mandatory for their door to door salesmen to be registered.

C.A.C. stresses that in our competitive economic system free choice must go hand in hand with knowledge. This is most important for the consumer who is shopping for consumer goods and services which include consumer credit. He is constantly exposed to powerful advertising which fosters selections based on impulse and automatic response rather than rational and critical ones. Careful shopping for credit and good buying habits increase real income and lead to improved standards of living.



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 8

TUESDAY, OCTOBER 27, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

The Canadian Chamber of Commerce: Mr. G. Egerton Brown, Director, Immediate Past Chairman of the Executive Council; Mr. Keith MacDonald, Member of the Association; Mr. N. Liston, Member of the Association; Mr. Paul Beaudoin, C.A., Member of the Association; Mr. W. F. Corning, Research Assistant.

APPENDIX

F—Brief from The Canadian Chamber of Commerce

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Holleth
Irvine

Lang
McGrand
Robertson (*Kenora-
Rainy River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Otto
Ryan
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate,

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C. moved, seconded by the Honourable Senator Brooks, P.C.

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

"On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LEON J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

JOINT COMMITTEE

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 17th, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act.)

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, October 27th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Gershaw, Hollett, Irvine, Smith (*Queens-Shelburne*), and Stambaugh, and

House of Commons: Messrs. Greene (*Joint Chairman*), Basford, Chretien, Irvine, Miss Jewett, Messrs. Macdonald, Marcoux, Nasserden and Otto.—15.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Otto, it was Resolved to print the brief submitted by The Canadian Chamber of Commerce as appendix F to these proceedings.

The following witnesses were heard:

The Canadian Chamber of Commerce:

Mr. G. Egerton Brown, Director, Immediate Past Chairman of the Executive Council.

Mr. Keith H. MacDonald, Member of the Association.

Mr. N. Liston, Member of the Association.

Mr. W. F. Corning, Research Assistant.

At 12.50 p.m. the Committee adjourned to meet *In Camera* Tuesday next, November 3rd, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, October 27, 1964

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

A motion to print the brief of the Canadian Chamber of Commerce was moved by Mr. Otto, seconded by Mr. Nasserden, and adopted.

(See Appendix "F")

Co-Chairman Senator CROLL: Honourable senators, on my right is Mr. G. Egerton Brown, Director and Immediate Past-Chairman of the Executive Council of the Canadian Chamber of Commerce. He is the senior Vice-President of the Sun Life Assurance Company of Canada. He will introduce his confreres.

E. Egerton Brown, Director and Immediate Past Chairman of the Executive Council of the Canadian Chamber of Commerce: Mr. Chairmen, honourable senators, on behalf of the executive council, it is a pleasure to appear before you. We would like to express our sincere appreciation for your invitation to submit a brief, and then to appear before you to amplify it and to answer any questions which you may have.

Perhaps I should introduce my confreres. To my extreme right is Mr. Keith H. MacDonald, Vice-President and Deputy General Manager of the Industrial Acceptance Corporation Limited. On his left is Mr. William F. Corning, of the staff of the Canadian Chamber of Commerce. To his left is Mr. Paul Beaudoin, Treasurer of Dupuis Frères department store in Montreal. On my immediate right is Mr. N. Liston, General Credit Manager of Simpsons-Sears Limited of Toronto.

Mr. Chairman, it may be said that we are coming before you on the basis of our brief to speak to you about the problems of retail sales. We do so because the Canadian Chamber of Commerce is a national voluntary federation of some 850 boards of trade, chambers of commerce, and, as you will appreciate, those terms are synonymous across Canada. Those boards of trade and chambers of commerce are made up of some 125,000 businessmen and include many retailers.

Seventy-five per cent of those boards of trade and chambers of commerce come from towns of 5,000 population or less. So that a very large part of the membership of the Canadian Chamber of Commerce through its member boards of trade are these retail merchants.

Our delegation is also directly concerned with retailers such as Simpsons-Sears, not only in their large but also their smaller stores across the country, and Dupuis Frères in the City of Montreal. The Industrial Acceptance Corporation has helped to finance these retail sales through handling the paper that

is written by the retailer. This, therefore, is the reason why our delegation is formed as it is.

The membership of the Chamber includes some 2,700 corporations and companies spread from coast to coast, of all sizes. In addition, there are 25 associate members. So, coming to you, as you know, sir, from the Canadian Chamber, we are coming on behalf of a very important segment of Canadian business and the employer of a very large segment of the work force of Canada. As I said, we appreciate the opportunity of appearing before you.

At the outset, I think I should say that we share your concern that some transactions which have arisen in the Canadian scene are not as they should have been. These are, as I think you all recognize, exceptional cases, and it is what can be done in this area that has brought you together, and if we can help you in any way in your deliberations we are glad to be here. As I have said, amongst our members there are many retailers, merchants selling consumer goods, both durables and non-durables. The latest figures we can see suggest there were in 1963 in the order of some \$8,800 million of purchases of durables or semi-durables in the retail area in Canada. At the end of 1963, of the \$5 billion-odd consumer credit that was outstanding there was approximately \$2 billion that was due to or that had arisen from retail sales. In other words, about 25 per cent of the total of retail sales made in 1963 was represented by credit at the end of the year.

Another approach to that is that of the actual durables of about \$3,200 million sold in 1963, \$1,600 million was covered by credit of one sort or another to the consumer purchaser. The 1961 figures show that there were some 152,000 retail outlets in Canada, and of these 130,000 had working proprietors operating these outlets, and in the total of 152,000 outlets there were some 580,000 other employees. So, when you put the working owners and the employees together you have a total of some 710,000 people—considerably more than 10 per cent of the work force of Canada. We are not concerning ourselves in our brief with the other 60 per cent of the \$5 billion of credit outstanding at the end of last year. That was credit given by chartered banks, personal loan companies, credit unions, etcetera, and we believe these people may appear before you in their own right and make their own presentation to you. As I say, we are looking at that \$2 billion, at the 40 per cent of the figure that arose from retail sales.

The brief which you have before you outlines the problems we foresee if the recommendations of the Royal Commission on Banking and Finance were followed in this area of retail sales. You will have seen from our brief that we are in full accord with the thought that the total dollar cost of credit accorded to an individual should be shown and, frankly, we commend those merchants whose contracts for sales show the purchase price, the exact cost added, the fixed amount of the instalments, and the fixed term over which the payments are to be made. We do submit, however, that a requirement to convert dollar charges to a rate of interest per annum is a complicated and, in some cases, impracticable procedure; that in the long run it would tend to obscure rather than clarify credit charges; and, further, it would increase costs which would eventually add even to the cash price of the goods sold.

As I have said, I have with me Mr. Keith MacDonald of the Industrial Acceptance Corporation, who is close to this question, because, as I have said, his company is refinancing many of the sales agreements made by retail merchants. I would like to call on Mr. MacDonald first, if I might, Mr. Chairman, to expand on paragraphs 8, 9 and 10 of our brief, so that you might see what lies behind the thoughts we have tried to express in those paragraphs.

Mr. Chairman, here I would assume all members of your committee have had the brief.

Co-Chairman Senator CROLL: Yes, they have had the brief, and they have read it.

Mr. Keith H. MacDonald, Vice-President and Deputy General Manager, Industrial Acceptance Corporation Limited: Mr. Chairman, section 8 touches on the problems of the thousands of small merchants who might be forced to endeavour to comply with interest disclosure, and I would like to deal with this matter somewhat further.

When merchants extend credit, the costs involve much more than the cost of money. In fact, most retail stores find two-thirds of the cost is other than interest, and one-third may be classed as money cost. The other costs are legal, staff, space, telephone, stationery, investigation, collections, reserve for losses, etcetera. The charge for forbearance, or what we think of as interest, will cover only one-third of the actual cost of most retail transactions on credit.

It should be noted too, as pointed out in sections 9 and 10, that costs of extending credit do not vary in a constant pattern in respect to the amount of credit, and there are certain minimum charges applying to any balance. For example, since two-thirds of the cost is other than interest, the expense of carrying \$50 balance is much more than half the cost of carrying \$100 balance. The cost of carrying a \$25 balance is considerably more than one-quarter of the cost of carrying \$100.

This seems to be the problem when stories involving reputable stores are cited in the press. The typical stories tell of a \$20 battery sold on four monthly instalments at a total cost of \$22.50; the finance charges being said to be 50 per cent per annum—the charge was only \$2.50 and the merchant probably lost money carrying the account. At more than 50 cents per instalment for handling costs alone the merchant certainly would not have anything left for setting up charges or interest. It should be borne in mind in this case that the merchant has a saleable package when he offers the battery at \$20 cash or \$22.50 on four equal monthly instalments. Also, it is important that the \$2.50 charge expressed in dollars makes for easy accounting and recordkeeping for small merchants. Finance charges in dollars provides superior sales appeal, and accounting is enormously simplified.

This brings us to the next point, that not only are costs not constant as to balance but that they are not constant as to term.

If it were to cost \$3 to set up any account, this then becomes 25 cents per instalment on a 12-month account and only 10 cents an instalment on a 30-month account, but it becomes 50 cents on a six-month account, or 75 cents per instalment on a four-month account. So they do not vary drastically. Other costs, such as handling the monthly instalments, will vary according to the number of instalments, or how many payments are to be collected and accounted for.

Beyond that you have a problem of varying yields where you use constant dollar charges. By that I mean that when you charge \$10 for 12 months and \$20 for 24 months there is a different yield, and there is a different yield, again, when you charge \$30 for 36 months. By any accepted method of calculating interest there is a different yield for each term: a different yield for seven months, a different yield for eight months, a different yield for nine months, and so on.

Since we have a minimum cost to set up an account and a minimum cost per instalment, charts used in most stores will show higher dollars per hundred charges on smaller balances and higher dollars per hundred charges for shorter terms. This is because, of course, most retailers are seeking a method by which the instalment or credit buyer bears the cost of carrying his particular account.

An alternative would be to charge little on short-term low unpaid balance transactions and presumably allow these accounts to be subsidized by the accounts of other buyers. Another alternative is, of course, to offer a cash discount of, say, 10 per cent—and this has been done—so that whether a person pays in two months or two years, he pays the same charge. The advantage of this system seems to be that no one talks about interest or cost of credit, yet these costs are still there. They are not spelled out for the customer and the costs are not distributed equitably between customers. In the case of a battery of \$22.50 with 10 per cent discount, \$2.25 would be the actual cost of carrying the account but is not shown as such.

Still another method, and one I submit has to be considered, is to offer merchandise at no finance charge, and this is being done, to a substantial degree, with such slogans as, "Cash prices on credit" or "Credit costs no more". Here the customer is not told how much he is paying for credit and, again, there is no mention of interest or carrying charges. They say a battery costs \$22.50 and there are no finance charges shown. While there appears to be definite sales appeal here, the cash buyer and the credit buyer pay the same price. On the whole this seems undesirable. It is worthy of note that under such a system of interest disclosure, many merchants, and perhaps the less scrupulous, would be driven to resort to such a method.

Over \$2 billion in purchase credit or sales credit is outstanding in Canada, but sales finance companies in Canada only have 40 per cent of the \$2 billion, and the remainder of it is with department stores, medium and smaller merchants, oil company credit cards and a few other miscellaneous forms of credit.

Sales finance companies themselves handle paper from over 25,000 dealers in Canada, most of them in the medium and small sized categories. This totals over \$800 million in financing. These companies do not loan money. It is not a matter of a customer coming to a lender faced with an immergent necessity. Rather it is a customer buying something from a retailer, and the finance company does not come into contact with that customer until after the sale. I mention this because it is often said the finance companies should disclose, but it is really the merchant or the clerk or salesman or bookkeeper who has to contend with this matter of financing.

Sales finance companies supply dealers with plans, systems, literature, contract forms, customer features such as life insurance, physical damage insurance, and they frequently supply charts which dealers may use. Some of these things would be rather difficult for the small dealer to supply on his own. I have some sample charts here with me, Mr. Chairman, the type used to assist dealers, if some of the honourable members would like to see them.

Certain of these charts would be unsuitable in the Province of Quebec where provincial statutes exist in respect to non-motor vehicle financing for balances under \$800. There are charts for regular monthly payments, for seasonal payments, and for other types of non-regular payments. They are all quite complicated and are based on dollars per annum. I also have contract forms which clearly require the seller to insert all of the details of the transaction, including description of the goods, the cash price, taxes, down payment or trade, both where applicable, unpaid balance, insurance if any, finance charges clearly spelled out in dollars, with the amount and dates of all instalments and the total time price.

I mentioned the Province of Quebec because of provincial legislation in this area of consumer credit. As members of this committee will undoubtedly know in the Provinces of British Columbia, Alberta, Manitoba, Ontario, Quebec, New Brunswick and Nova Scotia, hearings are under way or sittings are being held to deal with or to consider legislation on this matter of consumer credit.

It is interesting to note that though the Manitoba Legislature assented to a bill in May, 1962, which dealt with the sale of goods under time sale agreements, that act was never proclaimed. That was Bill 101. Instead a Bill, Bill 58, an amendment to the first one, was assented to and proclaimed, the principal difference having to do with disclosure. The present act in Manitoba requires that credit charges be expressed in dollars. The interest factor is deleted. Submission to the Manitoba Legislature indicated that the interest requirement plan was unworkable.

In another province, the matter of disclosure in terms of per cent per annum, often called "simple interest", has been before the house for some time. A study committee was formed to consider the subject, and a college professor, a professor of mathematics was called in for consultation. He was asked to come up with a simple formula to translate dollar charges into per cent per annum. Eventually he submitted a formula which he was frank enough to say he did not recommend. The committee was shown the formula and a sample was given to them to work out, and after a reasonable time nobody worked it out except the professor himself. Also, the interest rate developed by the formula was more than two per cent above any other accepted method. He had not included any system to cover irregular or unequal payments. Yet this form of credit forms 25 per cent of the credit facilities in this country.

I have with me a series of examples to illustrate the mathematics required to develop the yield per annum on what might seem to be typical examples of the use of purchase credit in the installment form. First of all, however, I would draw attention to the fact that there are five methods of computing yield. The one used in the examples was the constant ratio method which is considered to be the simplest. These have been drawn up very well. Robert Johnson, a professor of economics at the University of Michigan, was asked to do a study of this. He refers to these five methods as calculable and correct.

I should, of course, mention that no matter what method is used the yield will vary in respect to term. The dollar charges, the term, and the unpaid balances can be seen very clearly, but the process of working them out becomes difficult.

It may be worth while to say here that in the United States where this question of disclosure has been before federal and state bodies many times over the past 25 years, 30 of the 50 states have adopted legislation requiring dollar disclosure with no state requiring per cent per annum disclosure. There have been some 31 "Small Douglas bills" before various state legislatures in the last few years and not one has been adopted.

I have a pamphlet here put out in June this year by the United States Department of Agriculture, at the request of the President's Committee on Consumer Credit. It says:

Read and understand the contract. Don't rush. Never sign a contract with spaces left blank. Be sure that the contract tells—

Exactly what you are buying,

Purchase price or amount borrowed,

Interest and service charge in dollars of simple annual rate,

Total amount due,

Down payment,

Amount and number of payments, dates due, and trade-in allowances, if any.

I respectfully submit that reputable retailers in Canada are already providing this information to purchasers and in terms that they can readily understand. The person then receives a copy of the contract which he signs. People understand when finance charges are expressed in dollar terms and not in per

cent per annum. People understand dollars because they pay in dollars and not in per cent per annum. Furthermore dollars permit easier accounting for the smallest merchant. Important too is that it provides a ready means of comparison between cash and time prices, and a ready means of comparing the cost of credit from one source or another.

Mr. BROWN: Thank you, Mr. MacDonald. With your permission might I suggest that Mr. Liston expand a little on paragraphs 11, 12 and 13 and then we will be prepared to answer any questions you may have to ask.

Mr. N. Liston, General Credit Manager, Simpsons-Sears Limited, Toronto: Mr. Chairman, honourable senators, in addition to the remarks that Mr. MacDonald has just made I would like to look at the further complications in the retail department store business caused by what we call "add on" Between 85 and 90 per cent of the credit sales in our company, and this applies in most companies, are credit sales made to existing accounts. To demonstrate this let us suppose for argument's sake that somebody buys \$150 worth of merchandise. Then the payments on that would be \$10 a month. They reduce that to \$100, and add on another \$50 so that the balance is again \$150. The payments are still \$10 a month. In order to compute any kind of a simple rate you must know to what purchase the \$10 applies. If you quoted a rate in the first place and you applied part of the \$10 to the second purchase then the rate you quoted would be inaccurate. There are four or five ways in which you might decide to apportion the ten dollar payment to the balance, but many of our accounts with a balance of \$100 or \$150 have 20 or 30 purchases on them, so that the business of trying to apply any sort of formula is completely impractical. The business of trying to work these figures out the long way around would be hopeless.

On our revolving charge, or all-purpose, as we call it, type of account, the charges are added to the balance. This is a continuous account. The customer is continually purchasing, and we can envision no way by which a sales person could tell a customer, when he comes into the shop, how much the simple rate of interest is going to be on the purchase he wishes to make. It is virtually impossible.

Much of our business is done through the mail order department, and here again we do not see any way by which we can advise a mail order customer of what the simple annual rate of interest as a percentage of the purchase price is going to be, particularly if he has an account. Such a customer may be shopping from 500 miles away, and the person who is selling the goods just does not have this information at his disposal.

Our company, like most retailers, has always practised disclosure in terms of dollars because we have been concerned that some legislature in its wisdom might enact this type of legislation. We have sought advice from chartered accountants and professors, and we just have not been able to come up with an answer to this problem. We do not know how to answer it.

Mr. BROWN: Gentlemen, you see what we are trying to do, and what Mr. MacDonald and Mr. Liston have said is that we are all in favour of showing the dollar amount of the cost of credit on time sales, but we believe it is impracticable, and even impossible in some circumstances and a costly operation in others, to require an interest rate disclosure at the retail sale level of credit. That is the gist of our brief.

We picked up this point because it was one that was covered by the Royal Commission on Banking, and we felt that you would like to hear the counter-arguments. Such legislation would impose a great burden on the small retailer. The small retailer is in exactly the same position as the large retailer in this area except that he has less capability for being able to provide

this information. The cost of providing it would be that much more difficult for him to bear. That is our position as we see it.

Mr. MACDONALD: I have just a couple of questions. I take it that it is the position of the Chamber of Commerce generally that its members should state truthfully the prices they are charging a borrower in respect of any transaction?

Mr. BROWN: Yes.

Mr. MACDONALD: Would you agree that, when it comes to the matter of borrowing, the interest rate is the most effective parameter for measuring the cost?

Mr. BROWN: You are talking about when it comes to the question of borrowing.

Mr. MACDONALD: I am talking about borrowing.

Mr. BROWN: This is a little out of the orbit of what we are discussing with you.

Mr. MACDONALD: I do not think so. We are considering borrowing of all kinds. We are considering people who, instead of going to a bank or to Mr. MacDonald's finance company, are asking for credit at the store from which they are purchasing. I feel that people should be able to shop around in order to be able to get the best interest rate they can. Would you agree that the interest rate is probably the best way of measuring the cost of borrowing?

Mr. BROWN: As Mr. MacDonald has said, other factors enter into the picture. There is the question of the amount, the question of the duration of the loan and the question of the number of payments. The cost of handling an account has to be taken into account as well as the factor of the interest rate.

Mr. MACDONALD: That is the lender's problem, but from the borrower's standpoint the only thing that matters—

Mr. BROWN: —is how many more dollars per month he has to pay.

Mr. MACDONALD: The best way of deciding whether to borrow from the bank, Simpsons-Sears, or a finance company is to determine what the respective rates of interest are.

Mr. BROWN: Yes, I will go along with that, and as the Canadian Chamber of Commerce we are fully in accord with having that kind of competition. The individual has his choice and he can make his choice.

Mr. MACDONALD: But if he is to be able to do that meaningfully surely he must have some opportunity of knowing what rate of interest Simpsons-Sears, IAC or anybody else is going to charge him, so that he may make a comparison.

Mr. BROWN: Or a comparison between the amounts he is going to be charged.

Mr. MACDONALD: I am suggesting that the unit of measurement is the rate of interest.

Mr. LISTON: May I make a point here? If a customer pays his account within 30 days it does not cost him a nickel. If he wants to go to a bank or a finance company or any other place that lends money and compare the charges dollar with dollar then he can make his choice and shop around for his credit. He has 30 days in which to make up his mind whether he likes our deal or whether he would like to go elsewhere.

Mr. MACDONALD: That is fine, but is it convenient for him to have 30 days in which to shop? He wants to compare prices. If he goes to buy a car he does not want the General Motors dealer giving him a price in roubles and the Ford

dealer giving him a price in dollars, and so on. I submit that the interest rate is the basis upon which a comparison can be made between different sorts of borrowing.

Mr. MACDONALD: Why would it not be equally meaningful to know the dollar amount?

Mr. MACDONALD: I suggest that when you get to the interest rates the dollar amounts will not be too meaningful in terms of arriving at the ultimate cost. The interest rate is the best factor for comparing one against the other. If you know the interest rate you can calculate how much it is going to cost you in the long run to borrow a certain amount of money, and how much it is going to cost you to get a particular amount of credit. The best way of doing that is by comparing the rates of interest.

Mr. MACDONALD: I would point out that no one goes to a sales finance company in order to borrow money. We buy contracts only from dealers and merchants, so we do not have direct contact with the public, and we do not quote them rates, and so on. Suppose a man goes into a merchant's shop wanting to buy a battery. He can buy the battery for \$20 cash, or for \$22.50 on time payments. Suppose the merchant says: "It will cost you 50 per cent per annum to buy it on time"? Is that not going to deter the sale of merchandise?

Mr. MACDONALD: That may well be the case, but just because the truth happens to be complicated I do not think you should hesitate to tell him that.

Mr. MACDONALD: Is it going to help the merchant if he quotes the price as being \$22.50 with no finance charge?

Mr. BASFORD: In that case the customer can go down the street.

Mr. MACDONALD: He may well do that.

Mr. MACDONALD: If he can borrow from the bank at $5\frac{1}{4}$ per cent then he will compare that rate with the rate he is charged at the store. You say you do not deal with the customer, but you do deal with the customer just as directly as does a banker. You give him a loan. You determine the circumstances under which you will discount those contracts from retailers. You set the terms of repayment for the customer just as if you were dealing with him directly. That is my view on your particular comment.

Mr. MACDONALD: I respectfully submit that we do not dictate to the dealer what the down payment is going to be, or the dollar price at which he will sell.

Mr. MACDONALD: But you say to him: "If you make a certain type of contract we will buy it from you, but if you do not meet these terms then there will be no sale".

Mr. MACDONALD: We may reject some business, that is true.

Mr. OTTO: Mr. Chairman, I want to say to the gentlemen here that I more or less agree with their principle that the disclosure of the interest rate is not going to solve the problem that is before this committee. I think you will agree that we do have problems, and that they do not involve those people who buy sensibly and rationally. We are really concerned with the great number of people who do not buy rationally and reasonably.

Mr. MACDONALD: You made a statement and said that it would not be fair for vendors or retailers to say that the cash price and the credit price are both the same. I wonder if you could tell me why it is not fair if a dealer wants to sell a battery for \$22.50, whether it is a cash sale or on credit?

Mr. MACDONALD: I submit that this tends to confuse the public. It causes the public to feel that they are obtaining credit for nothing—that it costs nothing to finance. The inference is, of course, that the prices are the same

whether you buy on credit or buy for cash, which inclines the customer to use the credit, and of course he almost invariably buys more at that store than he would at another.

Mr. OTTO: Surely the customer can find another store which sells for cash?

Mr. MACDONALD: I think he could find another store where he could buy for cash at a lower price but in view of our methods of salesmanship and since some customers perhaps are less sophisticated than others, people are inclined to think they are obtaining credit at no cost.

Mr. OTTO: In other words you recognize that there are sales problems, in on the spot sales, and such things known as mesmerism. You also said that you do not deal directly with the customer, with the purchaser, but with the salesman who sells the piece of goods. In actual fact, he tries to get people to sign the dotted line, using the same power of persuasion and salesmanship. Do you think that at times he does not skip over some little items such as credit costs and so on. Have you even heard of contracts being signed in blank?

Mr. MACDONALD: I have heard of isolated cases of such a practice, sir.

Mr. OTTO: I am saying that it is the salesman who at a certain stage becomes the agent of yours, if he is going to buy that thing.

Mr. MACDONALD: No. I feel it could be interpreted as such. However, the same contract that we use might be taken to a bank or to any other company.

Mr. OTTO: Members of the committee know that people buy and have recourse to credit at 7.1 or 7.2, depending on the credit. You have heard of cases, for instance, of washing machines which have to be installed, in which a completion certificate is required, where the customer is supposed to sign that certificate on installation—you have heard of those certificates being signed at the one time, even before the customer gets the machine, the salesman using that power of salesmanship?

Mr. MACDONALD: I am afraid that occasionally such things do happen.

Mr. OTTO: Therefore, disclosure of interest in the contract, you will agree, would not have much bearing. In other words, if you have disclosure of interest on the contract, this will have no bearing on whether a customer buys or does not buy.

Mr. MACDONALD: On the particular example you mention, I am rather inclined to agree. However, I feel that over all there are discriminating powers, and if the rate of interest, for a radio, for instance, were said to be 50 per cent per annum I think anyone would be dissuaded from purchasing.

Mr. OTTO: I think people who have problems would not be dissuaded from buying, even if the rate were 150 per cent. As I said at the last meeting, in the case of second hand cars, if every such a car bore a notice "This car is not roadworthy" people would still be attracted and some would buy them. Perhaps Mr. Brown might answer some of the questions. For instance, in the brief, at page 5, paragraph 15, this is said:

—the difference between the cash sale price and the time sale price it may be contended that it is unreasonable to ask that this mark-up be expressed in terms of an annual rate per year. No legislation exists requiring that any other ingredient of price or difference between the cost and selling price be expressed in terms of percentage—

In other words you are saying this is discriminatory because no other sales were made and there were no other goods and no other business being requested to disclose this.

Mr. BROWN: This is depending on price control, if you wish.

Mr. OTTO: In other words, are you saying people are really buying credit or buying the goods? What are they really buying?

Mr. LISTON: I really mean that 99 per cent of the time it is a desire to buy the goods. There has to be that desire before you open up at all.

Mr. OTTO: Therefore, this argument does not hold where a customer is not buying credit but buying the goods and you do not disclose the difference between the cost and the sale of the goods.

Mr. BROWN: We do disclose dollar cost and that is what is being required.

Co-Chairman Senator CROLL: That is not the question Mr. Otto was asking. The question he asked was whether you are selling credit or selling goods, and the gentleman replying said it was a case of selling goods. Mr. Liston who is a credit manager, said that in 99 per cent of the cases they are selling goods. At that point, Mr. Otto then said that the disclosure of the interest rate is not discrimination, it will not affect the sale of the goods in any way. That was his point.

Mr. OTTO: My point is that the argument, with all due respect, is not very strong; and I hope that you would agree that there are many other parts of the argument which are much stronger. I have just one other question. You are getting into the sphere of economics in paragraph 18, Mr. Brown, when the brief says:

Credit is the vital bridge that links mass production to mass consumption and undue tampering with its delicate mechanism can have a serious adverse effect on our economy—

I have a feeling that I agree with you that, although Keynes and all the other economists have failed to introduce this new element, which is now a vital element, credit buying. If we did not have these problems, we would not have this committee. We have intimated that the problems we face might be solved by the disclosure of the interest rate. You say no. Now, have you any other ideas or suggestions by which we might find an answer to these problems, without such disclosure?

Mr. BROWN: Might I suggest, Mr. Chairman, that we withhold the answer to that question, as to suggestions that might be made, until we have covered the other point, if that is satisfactory to you. We could then deal with this more easily so that we could find some meeting of minds on it.

Mr. OTTO: That is fine.

Co-Chairman Senator CROLL: Except that if we forget, you will remember that he owes you an answer.

Mr. NASSERDEN: My question can be directed at Mr. Liston. I am not too familiar with the setup from a retail store point of view, like Simpsons-Sears. Supposing a person is buying a radio or a record player, regardless of the terms, and so on, in arriving at the charge that you make, do you have a set interest rate that you charge on a unit of money?

Mr. LISTON: Our charges are all set out in charts, in dollars.

Co-Chairman Senator CROLL: That is not strictly true?

Mr. LISTON: No. On the instalment type of accounts—that is the type I am talking about.

Co-Chairman Senator CROLL: The purchaser may not have a revolving charge account with Simpsons.

Mr. LISTON: There is an instalment account on which the carrying charge or service charge is added on the amount purchased; then there is a cycle type or revolving type of purchase, which adds the carrying charge as a percentage of the open balance each month on the slate. In one case it is added in one lump sum and in the other case it is added monthly on the balance.

Mr. NASSERDEN: How can a customer know what is the actual service charge for carrying the loan, and what actually he is paying by way of interest?

Mr. LISTON: At the time he buys a piece of merchandise, the sales person is equipped with a chart which will tell him how many months he has to pay and what the payment is and what the service charge is in dollars.

Mr. NASSERDEN: But he never can find out the actual interest rate for the money he is receiving to purchase these articles? There is no way of his discovering what the interest rate is? I am not talking about what the service charge or carrying charge is for the paper work on it.

Mr. LISTON: You are speaking of the cost of the money?

Mr. NASSERDEN: Yes. There is no way of arriving at the cost of the money itself to him?

Mr. LISTON: No, there is not. It is part of the over all charge. It is included in the over all charge.

Co-Chairman Mr. GREENE: Would you agree with Mr. MacDonald's statement that the interest cost for the money used is about one-third of the total cost?

Mr. LISTON: I think that this might vary in our business because we sell a lot of small items; it might vary, but I do not think substantially.

Mr. NASSERDEN: As I read the brief here, actually, and I agree with many of the conclusions you have come to, what you are saying is that credit is an expensive service to the customer.

Mr. LISTON: It is a service. Whether it is expensive or not is a matter of opinion. We have many professional people, lawyers, bank managers, and so on, on our books. These people are knowledgeable and are quite happy to pay the cost of that service.

Mr. NASSERDEN: The reason I said that this brief indicates to me that it is an expensive thing is that you have said in the brief that if you had to spell it out it would retard the sales.

Mr. BROWN: I want to suggest that we use the term "interest" here as a method of expressing a dollar amount in a per cent per annum basis; but interest is normally thought of as the price for the cost of borrowing money—money as a commodity. Now, as Mr. MacDonald has said, and Mr. Liston has confirmed, in the retail field, the cost of extending credit is very much more than the amount of the cost of the money itself involved. If it were possible to distinguish between the cost of carrying an account and setting it up and the cost of adding each further debit and handling each payment as it is made, and to divorce that from the actual cost of the money, we would be a little closer to an interest picture; otherwise, I think we are just going to distort the picture, sir.

Mr. URIE: Does the cost of opening a credit account vary with the amount? In other words, if I open one account for \$10, is the cost of opening that account higher than if it were for \$1,000?

Mr. BROWN: I would like Mr. Liston to answer that.

Mr. LISTON: It can be considerable. I might be going to take a calculated risk for \$10—

Mr. URIE: That is not the question. You have talked both in your brief and in your submission this morning about the invariable costs that you have. Now, can you tell me if the cost to you in Simpsons-Sears is the same for opening an account, whether that account is for \$10 or \$100, or whatever the amount might be?

Mr. LISTON: That is what I was getting at. If I had advanced you \$10 I might not buy a credit report, for example, but if I advance \$2,000 or \$3,000, I might want to pay \$10 for it.

Mr. URIE: At what stage do your costs increase?

Mr. LISTON: They increase at the point of sale, depending upon the amount of money.

Mr. URIE: Well, at what point does the cost of advancing credit change, at \$50 or \$100 or \$1,000, or what amount?

Mr. BROWN: It is a matter of judgment to be applied to individual different cases, because you are going to look at the man's occupation, the length of his employment, and a lot of other factors.

Mr. URIE: These are the variables of which you speak in your brief. There is an item of cost which is constant, isn't there?

Mr. BROWN: Oh, yes.

Mr. URIE: A cost which is constant?

Mr. BROWN: There is a bookkeeping and record setting it up, and that is not going to vary whether it is for \$1,000 or whatever the amount is; but there are other things to be considered.

Mr. URIE: Now, is that dollar amount a cost which you can compute with unvarying accuracy, no matter what the amount of credit advanced is?

Mr. LISTON: I would say it is very difficult to say that.

Mr. BROWN: Sir, I would make this suggestion, that this might be possible in one store, but to suggest that it is possible to all the stores of 152,000 retail outlets across the country, and that we can say there is a constant cost—

Mr. URIE: I did not suggest that. I was asking Mr. Liston about his store.

Co-Chairman Mr. GREENE: I wonder if we might have a little order in the proceedings. We have several witnesses here, and it seems to me that it is not quite fair to fire questions at them generally. Might I suggest that each member of the committee who wishes to ask questions complete his examination before we go on to any other member of the committee, and direct the questions specifically at a certain witness. Then, when all members of the committee have completed their examination, our counsel, Mr. Urie, will sum up as he sees fit. I suggest that would be a fair method.

Mr. NASSERDEN: The question that arises in my mind, after reading this brief and considering some of the other—

Co-Chairman Mr. GREENE: Are you directing this to Mr. Liston?

Mr. NASSERDEN: Yes. I take it that the cost of providing credit for the sales has added to the price that you have to charge a customer for goods?

Mr. LISTON: I am not sure that I am clear on that question.

Mr. NASSERDEN: If I want to purchase something from you, the fact that you have to provide credit adds to the price of the commodity that you are selling?

Mr. LISTON: Yes.

Mr. NASSERDEN: On this spread between what you would consider the price that you would be selling for cash and the price on credit, is there any appreciable profit or loss to your company on that type of transaction?

Mr. LISTON: Sir, the charges of the credit business are set in such a way as to not infer a loss.

Co-Chairman Mr. GREENE: Is there an annual profit and loss statement, say, which specifically reflects a profit or loss?

Mr. LISTON: It reflects a profit.

Co-Chairman Mr. GREENE: Shown independently of any retail sale profits?

Mr. LISTON: Yes, sir. I hasten to add that this is a matter of bookkeeping, and that if all of the charges that should be assessed against the credit operations were assessed, profit would be dissipated.

Co-Chairman Senator CROLL: Are you suggesting that you are doing credit business at a loss?

Mr. LISTON: A study was made by N.R.A. of the United States of a great many retail companies doing business on credit, and the study was published, and it indicated there was a loss on the over all credit operations of these companies. We are considering a national retailers' merchants association.

Mr. NASSERDEN: You did not indicate a loss for your particular company. Would you have a way of indicating what the percentage cost is on the volume of sales out of the figures that you have available as a result of all these transactions?

Mr. LISTON: Would we know what the percentage cost is?

Mr. NASSERDEN: Let me ask it in this way: The credit branch of your business, is that a separate function?

Mr. LISTON: Yes, it is, but all of the charges are not assessed against it; for example, the extra time taken on the floor to complete a transaction by the salesman. These are things that would be very costly to try and compute, so we make no effort to do that.

Mr. NASSERDEN: Is there a way you could ascertain the percentage cost of this credit on a dollars basis?

Mr. LISTON: I do not think so, not without doing a comprehensive study of the type done in the United States.

Mr. NASSERDEN: Well, I am not altogether satisfied with that answer, and I am not suggesting you are trying to wiggle out, or anything, either, but there must be some way to indicate the percentage that this credit is costing. Even in the records of your own company you must have arrived at some figure in order to know what to set as the minimum or maximum charges in order to operate it properly?

Mr. LISTON: I believe this was done some time ago. There are two things, really, to decide what the charges are going to be; that is, the effort to recover your cost, and competition is very important. I do not doubt there are many companies that are less sophisticated and less efficient, that do incur a loss and that would charge the same dollars as we do.

Mr. MACDONALD: I believe you could take a group of accounts, and suppose you took that group under \$50 that were for a certain number of months, and dollarwise attempted to discover what it costs you to carry those, you would not attempt to do it on an individual account, but you could obtain some kind of an average, but you would not very likely do it in per cent per annum. Our own company handles some \$400 million of these accounts, and we never interpret anything in per cent per annum, as to either expense or income. We interpret it in dollars. That is the way we pay our staff, that is the way we pay for our typewriters, and so on.

Mr. NASSERDEN: Percentages must enter into your calculation some place.

Mr. MACDONALD: We produce dollar charts, which could be termed as a percentage. They are dollars per 100 per year.

Mr. NASSERDEN: That is a good question to ask Mr. Liston. How many dollars per 100 per year does it cost to extend credit? Of course, this must be an average, because there is the short-term and the long-term you have.

Mr. LISTON: I cannot answer that question.

Mr. NASSERDEN: You have not any figures along that line?

Mr. LISTON: No. Mind you, I am not trying to say to you we do not compute cost figures on our credit operations, because we do; but they are not all in the profit and loss, as it was referred to, so any profit or loss is not really the total answer or the correct answer, because it would cost too much money to try and apportion some of the other costs.

Mr. NASSERDEN: I am not trying to apportion.

Mr. LISTON: Well, to assess.

Mr. NASSERDEN: I am sure that if I were in that business, extending credit to you and to every one around this table, at the end of the year I would have some figure on \$100 what it would cost for the extension of that credit, and to see whether I was making something on it or whether I was not, and what the cost to the consumer was in the overall picture.

Mr. LISTON: I agree with that.

Mr. MACDONALD: Touche seems to indicate in their survey that merchants would require \$9 per 100 per year to recover their costs of extending credit.

Co-Chairman Mr. GREENE: What survey is that?

Co-Chairman Senator CROLL: This is the survey done by Touche on a small, limited group, and it has been discredited. That is what I was trying to get in somewhere. I have read the survey and reports on it.

Co-Chairman Mr. GREENE: I think in order to try to give everyone a chance at the witnesses, when our counsel is finished there will be a second bite at the cherry, if you require one, so that no one need try to talk too long at the present time.

Mr. BASFORD: I think the co-chairmen have asked many of the questions I had in mind, but I was interested in Mr. MacDonald's interjection that in working out your costs it was on a dollars basis. I am wondering if, when your board of directors decide to raise a debenture issue, whether they take into account their costs on some basis.

Mr. MACDONALD: Yes, to a degree, but in a debenture issue we are paying for forbearance only, and we obtain no services whatever. It is forbearance only.

Mr. BASFORD: Your criterion is on a basis of percentage of interest?

Mr. MACDONALD: The cost of our money is, for the most part, in per cent per annum. We obtain no service in connection with money loaned to us.

Mr. BASFORD: In borrowing your own money you are using a criterion?

Mr. MACDONALD: When we purchase contracts we render a service to a merchant, and for that we charge the merchant in dollars.

Mr. BASFORD: It is the customers actually.

Mr. MACDONALD: Primarily the merchant.

Mr. BASFORD: But the customers are ultimately charged.

Mr. MACDONALD: The merchant may charge more than we would charge him, less than we would charge him or the same charge, in the same way as he might go to the bank with these contracts and borrow some money against them. The relationship of what he charges the customer and what the bank charges him are two different things.

Mr. BASFORD: You find in borrowing your own money that interest per annum is an efficient criterion of cost?

Mr. MACDONALD: I suggest when we obtain money we are obtaining no service whatsoever; we are paying for forbearance for funds. When we discount contracts we are rendering a service which can best be calculated in dollars.

Mr. BASFORD: Surely, when a man is buying an automobile and is not paying for it in cash, that is all he is buying, forbearance?

Mr. MACDONALD: A part of it is forbearance.

Mr. BASFORD: Where is the service?

Mr. MACDONALD: To purchase the contract and investigate the collection.

Mr. BASFORD: Not from the purchaser's point of view?

Mr. MACDONALD: —and investigate the customer's credit, to provide him with service by which he can pay monthly.

Mr. BASFORD: Surely, this same service is provided to Industrial Acceptance when it borrows on a debenture? The underwriters have to study very carefully the financial standing of I.A.C.

Mr. MACDONALD: You pay separately for that.

Mr. BASFORD: It is an element in the interest cost, is it not?

Mr. MACDONALD: No, it is not.

Mr. BASFORD: I would like to go back to Mr. Liston for a moment and find out the size of the average sale made on the revolving account.

Mr. LISTON: We do not have those figures. I could hazard a guess, and that is all it would be. It would be roughly accurate. It is something between \$15 and \$20.

Mr. BASFORD: This whole brief is aimed at protecting the small merchant and the small sale. Some of the witnesses we have had before us have said that in any legislation there should be a clause excluding small sales, a clause excluding the legislation from sales under \$50—well, the amount varies. So, if there were such a clause your brief would not apply, it would seem to me.

Mr. LISTON: Because that is not recommended in the brief?

Mr. BASFORD: The whole tone of your brief is aimed at protecting the small merchant from being involved in a very complicated procedure. If you exclude sales under \$50 you exclude your brief.

Mr. LISTON: Our brief is aimed at trying to point out that selling at retail on credit is different, quite different in the service element to loaning money of one kind. There is a great deal more service cost in it. The business of calculating some sort of rate is a great deal more difficult for a retailer than it is for a lending institution because of the multitude of transactions.

Mr. MACDONALD: I submit to you that in obtaining this average of \$15 or \$25 you will have to have a \$250 or \$500 deal.

Mr. BASFORD: Isn't that right?

Mr. LISTON: I don't know if it will be pertinent to the question, but in Alberta where they have been studying this, they have this legislation on the books which has not been proclaimed. There is a clause which does exclude continuous deferred payment accounts. This is the kind that most retail merchants prefer. They have excluded it because they feel this is an impractical thing. This is not the area they are concerned about from the point of view of having seen abuse in it.

Mr. BROWN: This is not based on the dollar account. Is it not based on the type of account?

Mr. BASFORD: If there is an exclusion clause for sales under \$50 this brief does not apply.

Mr. BROWN: The small merchant we are speaking of may be selling the television set at \$250 the same as the larger merchant, and he is also selling it on time. I don't think we should think this brief applies only to sales under \$50. We did not submit it on that basis.

Mr. BASFORD: Surely somebody paying \$250 or \$500 for an item is entitled to know what his annual cost is in terms of percentage.

Mr. BROWN: We think he should have it in dollars.

Mr. LISTON: How do you know that that is all he is going to buy? In our company a man may come in and buy a radio and signs what we call an "open-end" agreement. Then the following week he can come in and buy a baby carriage or a suit of clothes or children's clothing. In fact this is the way it is most often done.

Mr. BASFORD: What is the largest sale you would allow on a revolving account or an open-end agreement?

Mr. LISTON: Any piece of merchandise we sell.

Mr. BASFORD: What is the balance you would allow on that?

Mr. LISTON: It is a matter of judgment depending upon the person's ability and integrity. We do not have a hard and fast rule on the amount. There is no maximum if the person had the salary requirement and the ability to liquidate the debt. In those circumstances there is no maximum.

Mr. MACDONALD: Mr. Brown, in paragraph 16 of your brief you make reference to the Manitoba legislation which you say was not implemented, and which you say included amongst others a stipulation calling for disclosure of certain charges in terms of a per annum rate of interest. May I suggest that was not included because it was outside the constitutional jurisdiction of the province and in fact encroached upon the constitutional jurisdiction of the federal government.

Mr. LISTON: A similar act was passed in Alberta.

Mr. MACDONALD: May I suggest to you that it is unconstitutional. However, I know you are not a lawyer.

Mr. LISTON: No, I am not. But this is new to me.

Mr. MACDONALD: Your brief said it was passed but not proclaimed, and I submit it is because it is unconstitutional. However, you were saying that somebody comes into your store to buy a television set and you can tell them what the cost is and how long they have to pay and what the periodic term repayment will be. If you can tell them that, why can you not tell them what the maximum simple interest rate will be on that transaction at that point?

Mr. LISTON: We have a cycle billing process whereby you bill a series of accounts each day based on an alphabetical breakdown. My initial, for example, is "L" and my payment date because of that fact might be, let us say, the 10th of the month. My interest calculation will vary depending upon whether I purchase on the 11th or the 9th or the 20th of the month. This is one of the problems in computing a simple interest rate.

Mr. MACDONALD: If you were required by law to state that to the purchaser in simple interest rates, maybe you would change your methods of accounting.

Mr. LISTON: There is no question in my mind that if that was the case our revolving charge plan would be out the window.

Mr. MACDONALD: There is no reason why you could not set out the maximum simple interest rate.

Mr. LISTON: I say it would be very difficult for us to quote a simple annual interest rate without a great deal of calculation. Secondly, if that person came in and paid part of the account and purchased more merchandise what we had told him in the first place would no longer apply.

Mr. MACDONALD: But that would be a new transaction.

Mr. LISTON: If we were to make the payments on the second transaction a separate matter then that would be different. But we do not do that.

Mr. MACDONALD: When he comes in to buy the second merchandise you do not mention the question of payments.

Mr. LISTON: We don't mention it at that point.

Mr. MACDONALD: When do you mention it?

Mr. LISTON: Perhaps 2, 3 or 4 days later.

Mr. MACDONALD: Why do you not tell him at that time what the maximum simple rate of interest will be on the transaction?

Mr. LISTON: There would have to be a tremendous amount of work done to ascertain where the payments would apply, whether on the first piece of merchandise, or on the second, or on both equally.

Mr. MACDONALD: You are saying you are not going to advise the customer what his periodic repayments will be in dollars in respect of each particular piece of merchandise.

Mr. LISTON: In respect of the total.

Mr. MACDONALD: He is not advised and he does not know when he has to repay in respect of the second item.

Mr. LISTON: He is advised of his new balance. He is told what his new payments are.

Mr. MACDONALD: And the payments are over a period of time.

Mr. LISTON: Yes.

Mr. MACDONALD: You will advise him he has to repay in a different fashion. Why do you not advise him in respect of the second purchase that he must pay so much and make a total of so much and that the interest will be so much.

Mr. LISTON: We don't work it out on that basis.

Mr. NASSERDEN: What you have to do is change your chart.

Mr. LISTON: It is true if the government was to say to us "You will sell on 12 months and you will permit payment in such a fashion" then there is no argument. We would have to do that. But under our present system this would be very difficult.

Mr. MACDONALD: This is the whole basis of the brief. It would cost considerably more to attempt to do it in that way. At the present time where you might have one person for each thousand accounts, in the circumstances you mention you would probably have to have two persons to handle each thousand accounts and the credit costs would increase.

Mr. MACDONALD: But I understand Mr. Liston to say that you are not telling them in dollar terms what the cost is.

Mr. LISTON: We are telling the dollar cost for the add-on purchase and what the new balance is and what the new payments will be from hereon in.

Mr. MACDONALD: I cannot see why at that time you cannot tell them what the interest cost will be on the additional obligation.

Mr. LISTON: Let us say, for example, that the ledger sheet for his account is in Regina, and the transaction takes place in Prince Albert, Saskatchewan. The salesman has no knowledge of the balance.

Mr. MACDONALD: We are not talking about that. He is not invoiced from Prince Albert. He is invoiced from Regina.

Mr. LISTON: That is right.

Mr. MACDONALD: You are saying that the impact of the terms of the sale is only brought home to that person three or four days after he has committed himself. In other words, at the time you sell him the merchandise he is not told what it is going to cost him. You are not telling him at the time of purchase what it is going to cost him?

Co-Chairman Senator CROLL: The answer is yes.

Mr. LISTON: That is always true of all-purpose accounts.

Mr. MACDONALD: I have an account with your sister company, Simpsons. If my wife goes in to buy a piece of merchandise she has 30 days in which to pay for it. What rate of interest is charged on that account if it is not paid after the expiry of the 30-day period? What is your authority for charging interest if that account is not paid within 30 days?

Co-Chairman Mr. GREENE: Mr. Brown, you represent a number of retailers in Canada. What is your answer to that question?

Mr. BROWN: I cannot give you an answer to that question. I do not know what rate of interest would be charged on overdue accounts.

Mr. MACDONALD: I am asking what the procedure in that particular case is for notifying a particular individual what the cost of his borrowing will be. Maybe one of the other gentlemen can answer it.

Mr. BROWN: Have you an answer to that, Mr. Beaudoin?

Mr. BEAUDOIN: Do you mean what rate of interest will be charged if somebody who has a current account which has to be paid within 30 days does not in fact pay it within one month, two months or three months? Well, I can tell you that most stores in the Montreal area wait generally from 60 to 90 days before advising the customer: "This is a 30 day account. Do you want to pay or not?" Then, if the customer cannot pay, they say: "Why do you not have your account transferred to one of our regular charge accounts with interest rates?" But there is a delay. We do not charge interest right away. We ask the customer what he wants to do. We ask him whether he wants to go on a time payment plan or have a revolving credit account. Some customers do not know what type of accounts a particular store has.

Mr. MACDONALD: So there is no obligation for interest during the first 60 days?

Mr. BEAUDOIN: Usually it is about 60 days.

Mr. MACDONALD: So you arrive at a new contract, and the cost of the credit can be determined.

Mr. LISTON: I know of one contract—it is not issued by our company—that reads: "I agree to pay this account every 30 days. If I fail to perform I agree to pay such-and-such a rate of interest on overdue amounts."

Mr. MACDONALD: I am delighted to hear that there is one contract that contains those words.

Co-Chairman Mr. GREENE: Are there any other questions?

Mr. OTTO: I wonder if Mr. Beaudoin or Mr. Liston could outline for this committee the mechanics of a sale. I am trying to find out what time is involved in making out the time contract as compared with the time to conclude a cash sale. Suppose I go into a store to buy a radio and I want to buy it on time. I am not speaking so much of your store, but Mr. Brown might recognize the fact that there is a certain amount of time involved in the making out of a finance contract.

Mr. LISTON: Speaking for my company, if you are a brand new customer, and you have selected the piece of merchandise you wish to buy, you are referred to the credit department, or if you are buying through the mail order department then your application is sent into the credit department. A person there will interview the customer and obtain all the pertinent data as to his home ownership, current obligations, salary and that type of thing. The actual interview would take approximately 20 minutes. Frequently we contact the credit bureau and obtain a report as to whether there is anything on file about a particular person's buying habits and other obligations. This can sometimes be obtained in half an hour, but sometimes it will take a day or two.

Mr. OTTO: The cost of this is included in the service charge you were talking about?

Mr. LISTON: Yes.

Mr. OTTO: Did I understand you to say that you sell some of your paper and keep some of it?

Mr. LISTON: No, sir, we do not sell paper.

Mr. OTTO: Mr. MacDonald can answer this, then: When you buy paper—that is, when you buy finance contracts—in respect of goods a retailer has sold, the contract is already made out. When you buy that paper do you also check the credit rating of each customer?

Mr. MACDONALD: Normally you would do a check.

Mr. OTTO: You buy both recourse paper and non-recourse paper. Would you explain to the committee what the difference is?

Mr. MACDONALD: On non-recourse or limited re-purchase—recourse means that when the paper is sold the degree of responsibility for liquidation is upon the seller partially or there is little responsibility. There may be an agreement where the seller agrees to buy back the merchandise, or there may be an agreement where the seller has little responsibility.

Mr. OTTO: If it is recourse paper you are saying that you can go back to the retailer in order to get the money you have lent?

Mr. MACDONALD: Normally you may take the goods back to the retailer for resale.

Mr. OTTO: Do you pay anything to the retailer for that contract?

Mr. MACDONALD: I mentioned before that a retailer used a certain percentage rate. Whatever rate he decides to use the finance company will buy from that retailer at the rate which it uses, and there may be a difference between those two charges.

Mr. OTTO: In other words, you buy both recourse and non-recourse paper from a retailer. Suppose it is a hundred dollar paper—in other words, you are going to collect \$100—then you give him 7.2 or 8 per cent depending upon the type of goods and the method of payment. You may give him \$107 for it. Is that roughly correct?

Mr. MACDONALD: If he issues a contract for \$109 we may buy it from him for \$108. Therefore, he would obtain an extra dollar. Is that what you mean?

Co-Chairman Senator CROLL: I do not think that is what you mean, Mr. Otto. I know what you are getting at, but you are not getting a good answer. Ask the question right out.

Mr. OTTO: I am trying to find out whether all these have been departmentalized. Suppose Mr. Beaudoin is selling the goods. That is his business. He has a credit department. You are in the business of buying paper and collecting money. Is that correct?

Mr. MACDONALD: That is correct.

Mr. OTTO: You, in turn, give the retailer his money plus part of the interest he would have to collect, so he is in the business of not only selling goods but also the business of getting a little extra money?

Mr. MACDONALD: We may buy contracts from him with charges attached to them that are less than we require, and sometimes more than we require.

Mr. OTTO: Let us take the purchase of an item costing \$100. I am retailer and I have sold a customer a refrigerator costing \$100 on a time payment plan. Let us suppose it is worth \$150 altogether which has to be paid over 18 months. I want the money so I go to you, and you tell me that you will buy my paper. Let us suppose it is non-recourse paper, which means I am selling it to you outright. You give me \$130 for it. In that case I have sold a refrigerator on which I have made a profit of \$25, but I have also sold credit. I have obtained a credit customer for you which enables you to get another \$20. What I am getting at is that retailers such as Simpsons-Sears, Dupuis Frères and others are now really in two businesses. They are involved in the sale of goods and also in the sale of credit. What I am trying to establish is what percentage

of the total amount paid is normal retail profit, and in what proportions retail stores are involved in each of these two classifications.

Mr. MACDONALD: This might be a partial answer to your question: We would not normally buy the type of paper created by Simpsons-Sears.

Mr. OTTO: You would not buy it?

Co-Chairman Senator CROLL: That is your company would not buy it?

Mr. MACDONALD: Yes. We would buy only instalment credit transactions. We are interested only in transactions involving larger balances, major purchases.

Mr. OTTO: This goes back to the question Mr. Macdonald asked. Simpsons-Sears is really in the business of selling goods, but it is also in the business of financing. You have said that you keep those figures separately—that is, figures of the profit made from one and the profit made from the other. Can you tell me if you know what percentage of your overall profits is due to the financing part of your business, and what percentage is profit on retail sales?

Mr. LISTON: I have only a limited knowledge of this field. It is my understanding that we are in the business of selling merchandise. We do not look to the credit operation to make a profit.

Mr. OTTO: Does this apply to most retailers?

Mr. LISTON: I would say it definitely does.

Mr. OTTO: In other words, most retailers are interested in selling goods?

Mr. LISTON: Yes.

Mr. BROWN: Perhaps I could help answer that question. In my opening remarks I mentioned some figures which indicated that in 1963 the retail trade in durables or semi-durables amounted to approximately \$8.8 billion. In 1963 in terms of durable consumer goods there is something in the neighbourhood of \$3,800,000,000. That could be contrasted with \$2 billion of credit outstanding at the end of the year that had arisen at the point of the retail sales. In other words, these are some measures that are connected with what we are talking about. Another approach is that the estimated amount of consumer credit outstanding at December 31 was \$3.2 billion on consumer durable goods, 51 per cent of the credit that was outstanding at the end of the year was in respect of the sale of that \$3.2 billion.

Mr. OTTO: It is substantial.

Mr. BROWN: It is very substantial and it shows that the consumer credit operation has added to the standard of living which we enjoy in Canada. We have been able to enjoy the benefit of these goods—radios, television sets or dishwashers—while we are paying for them. I submit this is exactly the same as has happened in the case of housing due to the introduction of the National Housing Act. People now are able to pay for housing over a period of years, amortizing the interest and principle in equal monthly instalments.

Co-Chairman Senator CROLL: In the case of C.M.H.C. they give both the dollar and the interest disclosures.

Mr. BROWN: They are dealing in very much larger amounts.

Mr. OTTO: Mr. Chairman, although I understand your comparison, you will recall that consumer goods depreciate while real estate appreciates. In other words, the person who buys a home enjoys not only it but as the real estate or the value appreciates his equity appreciates so he winds up with more than he has. In the case of the consumer goods he winds up with nothing.

Mr. BROWN: We have been fortunate to be able to make this statement since the National Housing Act came into effect, that there have been times

when housing has depreciated. We have a lot of older housing in Canada that has not appreciated.

Mr. IRVINE: I would like to ask Mr. MacDonald a question. The statement was made here that some firms are advertising that you pay no more on time. I think this is misleading. It is considered to be a type of merchandising which the average firm, interested in serving the public, would not enter into. It is a very confusing item. A customer going into a retail store and asking about rates of interest and amounts of service charges is not interested, on the average, in the interest rate. I say this advisedly. Many people could not figure out $7\frac{1}{2}$ or $9\frac{1}{2}$ or $5\frac{3}{4}$ per cent on a balance of \$363. I have had that experience. If you were to say that the interest rate is such and such, they would ask you immediately how much that would be in dollars. They are primarily interested in knowing what the balance is and what they have to pay each month. I am asking you whether you think that is right. They want to know in dollars and cents how much they are going to pay, is that not right?

Mr. MACDONALD: I agree with that.

Mr. IRVINE: The vast majority of people, especially new Canadians, talk not in terms of percentage but in how much money it amounts to. They have to translate that interest into their own language and think about it and translate it back in terms of the deal they are making at that particular time. I think this is not of too much importance. However, the rates of interest any of you represented here today are charging are dictated more or less by competition. If your firm could sell at a lower dollar rate or percentage rate, you would do so. On the other hand if you are going to have to charge so much money, different from others, you will not be in business.

Mr. MACDONALD: That is right.

Mr. IRVINE: You have three charts, one yellow, one green and one blue, 70, 76, 86. These charts show different rates of interest. Can you reconcile these for me?

Mr. MACDONALD: There are three different charts that may be used by merchants. Those are automobile charts. We make those charts up to make it easier to do business. One merchant may use a lower chart than another. That is according to the policy and philosophy of the business.

Mr. IRVINE: One chart shows \$2,000 and \$425 over a 36-month period. Another shows \$465. I have forgotten what the third chart shows. There is a variance there. What is the difference in the service given to the dealer or to the customer, or as far as your firm is concerned?

Mr. MACDONALD: This is dictated generally by competition. If we did not produce charts and you drew up a contract which you would sell to us on the rate we prescribe, we would buy the paper at exactly the same rate on the three charts or against any other rate you decide upon.

Mr. IRVINE: You buy at the same rate? If this dealer sold you this piece of paper on which \$425 is shown, he could use the chart that showed \$465?

Mr. MACDONALD: Yes.

Mr. IRVINE: What happens to the other \$40?

Mr. MACDONALD: The difference would accrue to the seller.

Mr. IRVINE: This would go into a reserve fund?

Mr. MACDONALD: That is right.

Mr. IRVINE: What normally would be the percentage? If a merchandiser sells you a piece of paper for \$1,000 and the interest is \$120, do I get a reserve of credit for that \$120?

Mr. MACDONALD: In terms of per cent it might be 1 per cent of the amount financed per year.

Mr. IRVINE: I have to go back a little further. When I was first in business—I carry my own paper now—I would send in the piece of paper to the finance corporation with which I was doing business. They would send back a credit mark, which I received on the stub, giving me a credit for 10 per cent of this carrying charge. Later on I was offered 15 per cent by someone else. Is this not regular today?

Mr. MACDONALD: It would depend on the line of business. It will vary as to whether it is appliances, home improvement, buying new homes, buying new cars or buying used cars. There is a variance. Competition dictates practises.

Mr. IRVINE: But there is a reserve fund there of something in the neighbourhood of 10 to 15 per cent?

Mr. MACDONALD: In most businesses.

Mr. IRVINE: In appliances and automobiles?

Mr. MACDONALD: In most businesses.

Mr. IRVINE: In those two, particularly?

Mr. MACDONALD: When I say "most" I should clarify that. There are merchants today who are selling merchandise on a credit charge at exactly the same charges as the finance company charges them and they obtain no reserve, as you call it.

Co-Chairman Mr. GREENE: Is the consumer made aware that there are three different charts, that he is buying under A, B or C?

Mr. MACDONALD: If a consumer shops around from one place to another and asks for the dealer credit charge, he will find there is a difference.

Mr. IRVINE: I would like to follow this up, because I do not want to confuse the committee. This reserve fund that goes to the credit dealer is an item that he uses to cover up credit disabilities? Supposing we sell an automobile for \$300, an old crock, this has to be represented, but when you get it back there probably will be costs involved to put it in shape and there will be the cost of remerchandising. On this particular car there may be a loss of \$100 to \$150, and this loss can be taken from the reserve fund?

Mr. MACDONALD: Yes, just in the same way as a salesman sits down to draw a contract. In the same way an insurance agent takes a contract for an insurance policy, so might a dealer be said to be entitled to sell a finance contract and obtain something for it. The insurance agent does not do business at no cost, he obtains a commission; and a dealer who performs a service has to arrange for some remuneration for his services.

Mr. IRVINE: There is another point which I think is very important. Retailers cannot possibly go into business today without the services of an acceptance corporation or a finance company. This is something that this committee should consider quite seriously. I might say I have no connection with finance companies or acceptance corporations, but to keep the small merchant in business, this is an important matter to consider.

Mr. MACDONALD: Also the automobile dealers across the country have a wholesale plan with the sales finance company by which the sales finance company pays for the cars at the factory for the dealer, so the dealer has his inventory on the floor representing his stock of cars paid for by the sales finance company. The same may apply to appliances and boats. In the case of motor vehicles, more than 95 per cent are paid for at the factory by the sales finance company.

Mr. OTTO: Yes, but we are talking here about consumer credit.

Co-Chairman Senator CROLL: I do not think there is any complaint here that an organization such as yours is in business for the good of its health. You do pretty well at it.

Mr. MACDONALD: We make a profit.

Co-Chairman Senator CROLL: Yes, that is what I thought and that is as it should be.

Mr. BROWN: That is what keeps Canada going.

Co-Chairman Senator CROLL: True.

Mr. URIE: I would like to revert and direct a question to Mr. Liston with respect to the costs involved. I will direct your attention first to page three of your brief, and particularly paragraph 10. When I was questioning you a few minutes ago I was endeavouring to find out whether or not there was a flat rate or an invariable cost involved. In paragraph 10 you say:

Since the extension of credit on the sale of merchandise involves providing services and facilities that do not vary in direct constant relationship with the amount of an individual sale and the length of time allowed for repayment and since the cost of handling items of small value almost invariably will be proportionately greater than for items of larger value, it is extremely difficult to relate each charge into comprehensible per annum rates and hence into what would appear to be reasonable rates of charge.

And then you go on to say, "There is a minimum cost per account . . ." Now, is that statement correct or not, sir? I presume that statement refers to the opening of an account.

Mr. LISTON: We do not have any opening charge nor do we make any efforts, in my experience, at any rate, to figure out what the cost of opening an account is. I am quite sure that the people responsible originally for setting up our table for the charges were endeavouring to recover the cost of the credit service, and in doing this to keep in mind competition.

Mr. URIE: The only way that makes any sense at all, sir, is if in fact you relate it to the sense in which you also have it in your brief, that in effect the cost of opening a small account is proportionately greater than opening a larger one. So there must be an element of cost which is fairly constant throughout. Will you agree with me on that point? You said it in your brief.

Mr. LISTON: I would say that is a reasonable statement, if not 100 per cent correct.

Mr. URIE: You also know there is a cost for credit investigation in the larger accounts, which, I suggest to you, you do know?

Mr. LISTON: It varies in every city.

Mr. URIE: In each individual city. I do not care which city we are talking about, whether it is in Toronto, Montreal, or anywhere.

Mr. LISTON: I think it is possible.

Mr. URIE: You know there is a cost for investigating in every city?

Mr. LISTON: Yes.

Mr. URIE: You also know that you have to set up a certain reserve for losses?

Mr. LISTON: Yes.

Mr. URIE: You also know there is a certain cost for administrative handling of payments as they come in, and an element of cost for the use of the money. These are all known factors?

Mr. LISTON: Yes.

Mr. URIE: These are all known factors which can be assessed. Those items and elements are all included in the dollar amount you levy as a service charge to the customer for carrying his account.

Mr. LISTON: Correct.

Mr. URIE: And that is expressed in dollars. Is there any reason when those elements are known, why you cannot express that rate of charge as a per cent of the total, as a percentage charge to the customer?

Mr. LISTON: A percentage of what?

Mr. URIE: Of simple annual interest.

Mr. LISTON: I suggest there is a reason, the reason I tried to explain, the add-ons to our accounts. When you open an account at Simpsons-Sears, you open an account not to provide a piece of merchandise, although that is the way it begins, but 85 to 90 per cent of the sales we do on credit are continuing sales, they are add-on sales, as we call them.

Mr. URIE: And those add-ons—you add on a dollar amount for the cost at the end of the following month for any merchandise purchased in the preceding month; isn't that correct?

Mr. LISTON: In one type of account it is added on at the end of the month, and another type of account on the balance.

Mr. URIE: And I suggest to you that you can do the same with interest. It is just a matter of comparing the amount of cost of the total to the amount outstanding. Now, I should like to refer you to a statement you made, Mr. Liston. You said that if legislation required you to express this dollar cost as a matter of interest, in your opinion revolving credit or cyclical credit would go out the window. I think that was the way you expressed it.

Mr. LISTON: This is not only my own opinion, it is also the opinion of the chartered accountants, the auditors, the people we have asked to try and figure out for us how we can do this. They have said that it cannot be done. That is the reason for the tentative hearing of the provincial legislature under the select committee on consumer credit. A statement was made there that they have a chartered accountant sitting on the panel who for a year and a half has tried to come out with an answer, and he has not yet been able to figure out how to do it.

Mr. URIE: Is that also the case with respect to these various types of accounts to which reference was made on page four of your brief, such as layaway plans, holiday plans, seasonal payments, skip payments, bulk payments, and so on?

Mr. LISTON: No form will apply.

Mr. URIE: Is there an act in existence in the State of New York dealing with cyclical credit, budget plans, whatever they may be, to your knowledge?

Mr. LISTON: Yes, there is.

Mr. URIE: Do you know of the act which is in existence in the State of New York since 1957, called The Retail Instalments Sales Act?

Mr. LISTON: I am aware of that act.

Mr. URIE: I would refer you to section 413 of that act, and ask you whether in the light of this section the statement you made a moment ago that it is impossible, is in fact accurate. Section 413, subsection 3 reads as follows:

A seller may, in a retail instalment credit agreement, contract for and, if so contracted for, the seller or holder thereof may charge, receive and collect the service charge authorized by this article. The

service charge shall not exceed the following rates computed on the outstanding indebtedness from month to month:

- (a) On so much of the outstanding indebtedness as does not exceed five hundred dollars, one and one-half per centum per month;
- (b) If the outstanding indebtedness is more than five hundred dollars, one per centum per month on the excess over five hundred dollars of the outstanding indebtedness; or
- (c) If the service charge so computed is less than seventy cents for any month, seventy cents.

Mr. LISTON: All I can say is, sure, you can decide to charge a percentage on a balance; that is quite easy.

Mr. URIE: Maybe we are talking at variance?

Mr. LISTON: We are doing this at the present time; that is exactly what we do at the end of the month.

Mr. URIE: Do you express it as a rate of interest?

Mr. LISTON: We express it in dollars, but the dollars are obtained by using a percentage. Let me explain. We charge $1\frac{1}{2}$ per cent up to roughly \$200. It then goes down to 1.49, 1.48, 1.47—down until it finally reaches 1 per cent. But how can we tell a person what that amounts to in terms of simple annual interest, because it is different each month as the balance is different.

Co-Chairman Mr. GREENE: You can express it in monthly interest.

Mr. LISTON: Monthly percentage.

Mr. OTTO: Is this act in application now?

Mr. URIE: Yes, since 1957. That is the monthly service charge. It may well be we are all at odds, but I think this is the type of thing all the questioning was dealing with this morning.

Mr. LISTON: There is absolutely no argument this cannot be done, and we do it.

Co-Chairman Mr. GREENE: I think there are two different problems here. The questioning to date has been on the question of disclosure in simple annual interest. That act, as I understand it, and Mr. Liston's evidence, if I understand it correctly, is that they would have no objection to limitation of charges.

Mr. OTTO: That is right.

Mr. URIE: That is right.

Co-Chairman Mr. GREENE: That is two different points.

Mr. LISTON: We would have a great deal of objection to the limitation, if I understand it correctly.

Mr. URIE: What would be your objection to the limitation?

Mr. LISTON: It might be fine now, when costs are as they are now.

Mr. URIE: The banks operate under a limitation, and have for years.

Mr. LISTON: As I understand, from what I read in the press, they are not happy about it.

Mr. URIE: And the small loan companies too.

Mr. MACDONALD: With respect to consumer credit, I understand the banks charge more than the rate we speak of. The banks do not disclose the actual rate.

Mr. URIE: All I am suggesting is they have a limitation as to the interest they charge.

Mr. MACDONALD: I submit that if the banks do in fact have a limitation, and if that limitation is 6 per cent per annum, the banks regularly, each day, are making loans and are charging in excess of that rate.

Mr. URIE: Nobody is arguing about that.

Co-Chairman Mr. GREENE: Would you pursue the line of questioning in respect of section 413, Mr. Urie?

Mr. OTTO: It seems to me we are on a completely new tack now. Instead of having disclosure of the simple annual interest rate we are discussing a completely new concept, and that is a limitation. If we are going to discuss that, we should have evidence as to how it is avoided. Mr. MacDonald pointed out the banks seem to avoid the 6 per cent limitation. What is the application, and what is the extent of the application? This comes into a completely new field, rather than the one we were discussing.

Co-Chairman Mr. GREENE: I think the record will show there is some discrepancy here in the evidence. I understood Mr. Liston to say, first, with respect to his own company, "This is exactly what we do now." When we dealt with the matter further, he said that he was against any sort of this kind of limitation. I wonder if you would follow that section up.

Mr. LISTON: I meant we now obtain a dollar amount of carrying charges on a cyclical-type account by applying a percentage to the outstanding balance. This is what we do now. I did not realize, and I did miss it when the act was read, that I was agreeing with a limitation. I do not agree with this and my company does not agree with this, and we do not agree with it because we think that what might be a proper or reasonable, or whatever else one might call it, charge now might not be reasonable a year from now. The cost of money goes up and down frequently.

Mr. MACDONALD: The same state required a disclosure in dollars per hundred of finance charges on instalment contracts.

Mr. URIE: That is quite right, but we are talking at the moment about the retail merchants advancement of credit, where they said it was impossible.

Mr. LISTON: I think where the problem, probably in semantics, is, I understand there is quite a difference in percentage rate per month on the balance, which in our case varies, and a simple annual interest rate.

Mr. MACDONALD: I brought with me examples of translating dollars charged into per cent per annum. I left them with the secretary.

Mr. OTTO: Could Mr. Urie read that regulation again?

Mr. URIE:

A seller may, in a retail instalment credit agreement, contract for and, if so contracted for, the seller or holder thereof may charge, receive and collect the service charge authorized by this article. The service charge shall not exceed the following rates computed on the outstanding indebtedness from month to month:

(a) On so much of the outstanding indebtedness as does not exceed five hundred dollars, one and one-half per centum per month;...

Co-Chairman Senator CROLL: What we are really dealing with here is disclosure. That is the basis; that is all we are asking for.

Mr. OTTO: This might be the answer to the objection of the gentlemen here, if the gentlemen say that all these things will be difficult, if they are willing to print on top of the statement, "Your interest rate does not exceed... percentage."

Mr. L'HEUREUX: This percentage is the added charge, but does not give the effective rate of interest. The company's rate of interest which was shown, this cannot be the effective rate because the rate applies on the balance at the billing time, which varies during the month.

Mr. BROWN: And it is payable monthly.

Mr. URIE: The most important thing this committee is attempting to do is to make available to the person seeking credit some comparability between various merchants with whom he deals. My purpose in raising this particular act was to show to you it is possible, at least in the mind of the legislature in the State of New York, to show this comparability. Whether it can be expressed as a simple annual rate, I do not know.

Mr. LISTON: There are many companies in this country that have the rate in their contract—that is, the percentage per month.

Mr. URIE: What objection would you have if there were legislation passed which required, as a matter of business, that this rate be disclosed?

Mr. LISTON: We are not talking about the limitation?

Mr. URIE: Without discussing limitation.

Mr. LISTON: Of course, this would cost something to do, and one objection I have is that I personally do not think it is very meaningful to customers. For me to tell you, "This month your percentage service charge is 1.43", what does it mean?

Mr. URIE: It means quite a bit if he can go to another place and find out the service charge there is 1.33 instead of 1.43. At least he knows that he is saving one-tenth of 1 per cent.

Co-Chairman Mr. GREENE: Mr. L'Heureux, can you help us with that? If we made a stand that interest must be explained in monthly rate, can that be a universal measuring stick, or are there too many intangibles, to achieve the end Mr. Urie points to, that the consumer would then have a basis for comparison?

Mr. L'HEUREUX: Not with the revolving account, because if you say a percentage charge on the balance of an account, it does not mean anything. You might start your account with \$5 and end up with \$500.

Co-Chairman Mr. GREENE: We understand that. If you make the standard the monthly rate of interest rather than the annual rate we have been speaking of, supposing I go to a bank or a finance company and say, "What is your monthly rate of interest as compared with the 1.41 which Simpsons-Sears is charging per month?" Will that be a constant standard?

Mr. L'HEUREUX: For the revolving account, yes; but it would not give us the effective rate of interest. It might be higher or lower.

Co-Chairman Mr. GREENE: Your answer then is that this is not a yardstick of any value to the consumer?

Mr. MACDONALD: I submit this would merely drive the cost of credit underground. Someone would start off with 1.33, and then another with 1.23 and someone with 1.13—eventually you would have people with no finance charge.

Mr. URIE: With respect, the legislation makes it quite clear what must be included in the various service charges, and what must, as a matter of law, be included, and if they are not then the contract is null and void.

Mr. MACDONALD: How do you know in the State of New York they are charging consumers for what the credit costs?

Mr. URIE: I have not the slightest idea. All I am suggesting is that the legislature of the State of New York has set up controls for legislation of this kind, just as we have in the case of the Small Loans Act in Canada.

Mr. MACDONALD: There being no price control, what is to prevent a merchant from competing with Simpsons-Sears and charging 1 per cent, knowing full well it costs 1½ per cent?

Mr. MACDONALD: I would assume in order to effect that, they would have to raise the price of the merchandise, and the consumer is not a fool and he is going to go where the merchandise is lower and compare the two.

Mr. MACDONALD: How do you compare two used cars?

Mr. URIE: You compare the prices you pay including the service charge.

Mr. MACDONALD: How do you compare used merchandise with regard to quality and find out whether or not they are the same?

Mr. NASSERDEN: It depends on the customer's preference. He may on one car prefer the colour and the shape of the door, but the matter has nothing really to do with the cost in money.

Mr. MACDONALD: If a dealer charges 1% per month less and he knows it is not economic and prefers to go bankrupt, that is a matter of his preference.

Mr. MACDONALD: If you have a fair comparison, and a person wants to go bankrupt then that is his business. But the consumer should have the right to shop around and get the best price he can. In the question of two similar items there is basis for comparison, but that does not really affect what we are discussing.

Mr. BROWN: We are in favour of fair competition and keeping cost of credit at a reasonable level to the consumer. This is what's happening now. However the point we want to make is that if a ceiling is placed on cost for credit to the consumer, and that ceiling ceases to be realistic, it is going to force the excess cost into the basic price level which will apply whether the item is bought for cash or bought on credit.

Mr. MACDONALD: We are not arguing the question of ceiling now, we are arguing the question of disclosure, and surely it is elemental in a free trading relationship that so far as possible knowledge should be perfect between buyer and seller. We realize it is ultimately imperfect because no person can take into consideration all the possibilities, but at least one of the imperfections regarding the true cost of money would have been removed by this method. Surely the point that Mr. Urie made deals with what Mr. Liston said when he said if we have such a disclosure then companies like his are going to have to go out of this kind of business. But the companies in New York are very much in business and they have tighter restrictions than we are talking about.

Mr. LISTON: There is a difference. I said if we had to quote a simple annual interest rate—and this is not what it is.

Mr. URIE: It is a simple monthly interest rate.

Mr. OTTO: On a point of order, we have a mention of an act, and we have allegations that the act is being circumvented. If we are going to pursue this line of questioning should we not have some witnesses from New York and I will be happy to go down and get them for you. We have had an act mentioned and we have had allegations that it could be circumvented.

Co-Chairman Senator CROLL: I don't think that is exactly what he said.

Mr. BROWN: This is the first time I have heard Section 413 mentioned, but I would like to suggest that in the terms of that section a retailer could prepare tables that would not show the interest rate but showed the dollar charges and it would still be in conformity with that section. The section said that charges shall not exceed certain amounts. It does not say that they shall be stated in percentages, but that they shall not exceed so much. Therefore, they could be dollar amounts as we have suggested. From that point of view even here we may find it is not an interest rate per month that is being sought.

Mr. MACDONALD: I have stated it is impossible to show this as an interest rate. We have a New York law which shows that this is necessary for compliance with the law, and presumably the law is still in effect and presumably people are still in business.

Mr. BROWN: We have said it was virtually impossible with the type of credit being granted to give an effective annual interest rate. This is a monthly basis of charge that is dealt with in the New York Statute and this is quite different. We are not comparing apples and oranges.

Mr. MACDONALD: For example if a man bought on the 15th of the month and paid on the 28th or if he bought on the 15th and paid on the 18th of the following month, there would be the same charge, which you call "interest rate", but that would really be a service charge.

Mr. OTTO: I think Mr. Brown said there is nothing incongruous between his statement and this act. This act sets out dollar amounts.

Mr. BROWN: I can only go by what I have heard and read at the committee meeting.

Mr. URIE: I may say there are 11 other states in the United States which have legislation in effect of a similar nature.

Mr. BASFORD: But Mr. Liston said this is how it worked out and the charges are converted into dollars. I do not say that in New York the legislation provides that there shall be a disclosure of an effective rate of interest. I do say that they provide there shall be a charge of so much, but it is not necessarily an effective rate of interest.

Mr. URIE: Not an effective annual rate. It describes the maximum rate which may be charged.

Mr. BASFORD: As I understand it, it is on the outstanding balance at the end of the month. This is not an effective monthly rate.

Co-Chairman Mr. GREENE: There is a limitation section rather than a disclosure section. Maybe we can adjust ours and put in a limitation clause rather than a disclosure clause. That may be the conclusion New York came to.

Co-Chairman Senator CROLL: They may take a disclosure rather than a limitation. Limitations they do not want, I assure you.

Co-Chairman Mr. GREENE: Maybe that is what they wanted in New York.

Mr. NASSERDEN: There is a distinction here we have been forgetting about. On a revolving fund there might be a number of small items ranging from a dollar or two upwards. It is very hard to set the interest rate on that. I think we all realize that. But on the major appliances like a refrigerator or anything over a certain amount of money where there is a contract, this is a different proposition altogether.

Mr. LISTON: If it is a one-time sale.

Mr. NASSERDEN: What you are saying actually is that once a person sets up the account it then becomes "add-on" and he can just go in and buy a radio or refrigerator and add them on and there will not be a separate contract for them. This is a case where up to \$300 or more are involved. There should be some way for a customer to know exactly what he is paying by way of interest on items like that. But where it is convenient to him to buy a shirt today and a tie tomorrow, small items like that, he may propose to pay at the end of the month but through no fault of his own or perhaps through his own fault he cannot do so and you have to arrange something else. But where he pays it at the end of the month you add on a few cents at some place. I do not think anybody is quarrelling with that, but with respect to these other transactions which involve major appliances, and where there is a

definite amount of money involved, it occurs to me—and you may not agree—that the purchaser could very likely get the money much more cheaply somewhere else. It appears to me that the whole merchandising setup could be made more economic to the consumer if he knew he was paying through the nose in order to secure credit in this way. When I say that, I am not speaking disparagingly of this method of merchandising because I realize that credit has meant a lot to moving goods.

Co-Chairman Mr. GREENE: If I understand Mr. Nasserden's point correctly, he is saying that on a single transaction type of retail sale there is no reason why you cannot disclose interest in simple annual terms.

Mr. LISTON: I believe that that is substantially correct.

Co-Chairman Mr. GREENE: Our problem arises with the open end revolving account.

Mr. LISTON: It arises in respect of any kind of account with the add-on feature.

Mr. MACDONALD: I disagree with the premise mentioned previously that you can easily arrive at a simple annual rate. It is my opinion that you would arrive at it only after much difficulty.

Co-Chairman Mr. GREENE: What difficulty is there in arriving at a simple annual rate with respect to the sale of a single item?

Mr. MACDONALD: The first one is that it is the salesman who completes the transaction, and the second one is if the customer is to be informed meaningfully then he must be informed of the charge in dollars. If he is going to be informed in dollars then those dollars have to be translated into an interest rate per annum which would take into account each payment as it becomes due throughout the time of the contract. You must go through the performance of establishing the average amount outstanding for the average term, and by a series of mathematical calculations arrive at a rate of interest per annum, which would take a person about ten minutes in each case.

Co-Chairman Mr. GREENE: Are you saying that there are no charts, graphs or forms that enable this to be done easily and with a reasonable degree of accuracy—say within one-half of one per cent—without having to take up a lot of time?

Mr. MACDONALD: I am suggesting that if tables were provided they would be so voluminous and so costly as to drive the small merchant out of the credit business.

Mr. NASSERDEN: Surely all it would require is a further column on your account. Is that not a fact?

Mr. MACDONALD: I submit that it would take a great deal more than that.

Mr. URIE: You have a chart now for dollar amounts.

Mr. MACDONALD: Dollars per \$100.

Mr. URIE: Why could there not be a similar table for percentages? I cannot understand what you have said, particularly in the light of the evidence we have before this committee on three occasions from three different sources to the effect that this is possible.

Co-Chairman Mr. GREENE: And that it is being done.

Mr. MACDONALD: You may have heard from the credit unions, for example, but credit unions in Canada and the United States are gradually switching over to dollars per \$100, and credit unions are a source from which you borrow.

Mr. URIE: They are not a source from which you buy merchandise. Get away from the buying of merchandise. What happens in a case such as yours where you are buying \$100 worth of paper?

Mr. MACDONALD: When we buy paper we establish a charge of so many dollars per \$100, which we assess on the contract bought.

Mr. URIE: That is a single transaction.

Mr. MACDONALD: Yes.

Mr. URIE: Is there any valid reason why, for example, this instant rate converter, or something similar to it, could not be used by a member of your sales staff to determine the percentage rate?

Mr. MACDONALD: Any rate translator that I have seen—and we have endeavoured to obtain them through the universities, credit associations and various retail merchants bureaus—would cover less than 60 per cent of the credit sales made in Canada, there being 40 per cent left on which you would still have to do a series of intricate calculations.

Co-Chairman Mr. GREENE: The Royal Commission on Banking and Finance did not agree with that conclusion.

Mr. URIE: No, and I will tell you once more—

Co-Chairman Mr. GREENE: Are you aware of that fact?

Mr. MACDONALD: I knew that, sir.

Mr. URIE: We had before us the Consumer's Association of Canada who in their brief made reference to a speech by Mr. W. E. McLaughlin, the Chairman and President of the Royal Bank of Canada. They quoted from that speech as follows:

Finance charges should be disclosed both as an effective rate of interest and in dollar amounts. Agreed! The chartered banks have nothing to lose and everything to gain by this type of disclosure.

What is your comment with respect to that?

Mr. MACDONALD: The chartered banks quote the cost of loans to the customer in dollars.

Mr. URIE: They may well do that, but one of the presidents of the chartered banks says that there is no reason why they should not quote it as an annual rate.

Mr. BROWN: Other people have disagreed with Mr. McLaughlin.

Mr. URIE: Maybe other people disagree with the Canadian Chamber of Commerce too.

Mr. MACDONALD: There is no bank in Canada quoting to the customer a simple annual rate of interest on loans having to do with consumer credit.

Mr. URIE: The Royal Commission on Banking and Finance disagrees with you there also.

Co-Chairman Mr. GREENE: Mr. Brown, you said that this particular legislation was a novelty to you; that in your consideration of it you had not found similar legislation in other countries.

Mr. BROWN: We did not go into an exhaustive research of this matter in other countries. Can you add anything to that, Mr. Corning?

Mr. CORNING: No.

Mr. BROWN: We looked particularly at the Canadian scene.

Mr. LISTON: One of the principals in our company is an American retailer, and we are told that there is no state in the United States that requires disclosure in terms of simple annual interest—not one.

Mr. MACDONALD: It would have been very helpful if you, coming as a representative really of the Sears Company, could have made some suggestions to the committee as to how it effectively could meet its long range objective of obtaining fair treatment for the consumer in respect of interest rates.

Mr. LISTON: I would like to say that Sears in the United States has diligently tried to do this, and they are no further forward than we are. They have not been able to come up with an answer. They still feel as I personally feel, after having been in the credit business for 18 years and after having talked to many thousands of credit customers—that dollar amounts is what the customers like. We do not get requests for simple annual interest rates.

Mr. URIE: I think, Mr. Liston, I would not disagree with your statement, but what this committee is endeavouring to do is to protect the consumer from himself, and to assist him in that. There is one question I would like to ask: If disclosure of the dollar amount is more likely to be honest, then what can be done in the event that disclosure of a percentage rate is required? Mr. MacDonald made the remark a moment ago that such a disclosure would drive the interest rate down, and certain extra charges would be hidden in the price of the article. Is it not more likely that this would be done in the case of monthly dollar amounts?

Mr. MACDONALD: I will go back, if I may, to the case of the battery which costs \$20 and on which there is a \$2.50 finance charge. This can then be said to be an interest rate of 50 per cent per annum, and could be said to be exorbitant and unconscionable.

Mr. URIE: What about the fellow who says that in one place it is \$2 and in another it is \$2.50, and the retailer charging \$2 has hidden the extra amount in his price.

Mr. MACDONALD: But the customer is inclined to think, when the credit charge is 50 per cent, that it is 50 per cent of \$20, and that it is going to cost him an extra \$10 instead of which it is \$2.50.

Mr. URIE: What about the suggestion made by the Royal Commission on Banking and Finance at page 382 of their report, as follows:

On small contracts the administrative costs are high relative to the amount of credit and inevitably involve high annual rates. It might be advisable to allow a flat amount service charge of, say, \$1.00 per contract and to exclude this portion of the charge from the amount required to be expressed in annual rate form. If this is not feasible, the main purpose of the legislation could be achieved by exempting all amounts under \$50 from its provisions, while preventing evasion through the writing of numerous small contracts below the exemption limit.?

What would be your comment in respect of that recommendation?

Mr. MACDONALD: I would go back and answer Mr. Macdonald at the same time. He asked if we did our homework before we came here. I believe we did—at least, in so far as I am concerned. One of the officers of our company with whom I work is a director of the American Finance Conference which comprises all of the larger finance companies in North America. We are also ourselves a member of the Federal Council of Sales Finance Companies of Canada, and this matter of disclosure is annually a subject under discussion. Annually delegations or committees are devised to endeavour to deal with this problem, and they appear continuously before legislatures in the United States. During the last three years there have been 31 of what are called small Douglas bills, Senator Douglas being a person who is a proponent of interest disclosure. None of those Douglas bills have passed. Instead, in 30 of the 50 states of the United States there is a requirement for dollar disclosure, but in no state is there requirement for the disclosure of an interest rate per annum. We finance companies have engaged such people as Professor Johnson, who is a noted authority on the subject, who have done a considerable amount of research to establish that it is almost impossible to quote in terms of per cent per annum an interest rate before the fact. It can be done after the fact. Mr. Brown left the

door open earlier for a suggestion, and I would be pleased to point out to the committee that the Federated Council of Sales Finance Companies in Canada have recommended to certain provincial legislatures a dollars per hundred disclosure. A dollars per hundred disclosure was enacted in the United States and it seems to be most meaningful to the customer, it is fathomable by the retail trade and by finance companies.

Mr. MACDONALD: My only comment is that this appears to be a statute that is highly relevant, for a neighbouring community with very similar business practices. I am a little disappointed that you did not tell us some of your experience on how this worked out in effect.

Mr. MACDONALD: It seems to have worked out admirably. In Nebraska, legislation was passed which seems to embrace some of the same ideas that people are expressing here. Retail sales in the State of Nebraska dropped by 35 per cent after the introduction of this legislation and it has not yet recovered.

Mr. BROWN: In preparing the brief, in being invited to come before you, we asked Messrs. MacDonald, Beaudoin and Liston to come with us so that you might have these men who are experts in the field, as your witnesses.

Mr. LISTON: In some legislatures it is like waving a red flag to a bull to mention the United States.

Mr. BASFORD: We are not like that.

Mr. LISTON: In regard to what Mr. MacDonald has said, I will be pleased to produce documents.

Mr. NASSERDEN: Did I understand you to say you have no objection to filing dollars per annum disclosure?

Mr. MACDONALD: Dollars per annum.

Mr. NASSERDEN: I submit that would be a percentage.

Mr. MACDONALD: No. It would be something of Mr. Urie's application of a service charge to interest, to say that dollars per hundred is interest.

Mr. BASFORD: I take it you would support the disclosure of dollars. How do you work that out per hundred?

Mr. MACDONALD: I am not an expert in accounting, as to dollars per hundred.

Co-Chairman Mr. GREENE: That is something I wondered about because of your mutual association in the chamber, but I am rather surprised to see a retail store whose chief business, 90 per cent of it, is with open end accounts, making a joint presentation with I.A.C. whose chief business I would think is in retail sales.

Mr. BROWN: It all starts at the retail level.

Mr. BASFORD: If we accept Mr. MacDonald's suggestion we will have a greater protest from the retail merchants.

Mr. LISTON: I am coming up with them on the 17th.

Mr. OTTO: I take it Mr. MacDonald offered to disclose some information.

Mr. MACDONALD: All retail merchants, including Mr. Liston's company, do instalment sales transactions as well as open end accounts and cyclical accounts. In respect to an instalment account I believe that the Retail Council of the Federated Council of Sales Finance Companies would have no objection to dollar per hundred type of disclosure applying to instalment accounts.

Mr. BASFORD: I do not follow your difficulty in transferring these dollars per hundred into percentage.

Mr. MACDONALD: That is the reason I brought the examples along. A salesman on the floor of a retail store, the charge being \$7 per hundred, let us say, is able to calculate in one, two or three-year payments the charge when it is related in dollars per hundred. It is, for example, \$7 per hundred per year on \$250 balance. We supply tables that permit him to do that. We could not however begin to supply tables which would translate that into per cent per annum. It would be a hard chore to arrive at and the inaccuracies would be many.

Mr. URIE: Would you agree with me that, in so far as the consumers are concerned, not taking into account your own affairs, the consumers' desire is to be able to buy by dollars and not by percentage, to obtain the cost of obtaining credit.

Mr. MACDONALD: I would agree with that.

Mr. URIE: If such is the case, the precise accuracy of the percentage is not of particular importance, would you agree with that?

Mr. MACDONALD: That is a rather general statement, to my way of thinking.

Mr. URIE: In other words, if the percentage calculation were accurate, then one half or one quarter of one per cent would not be important. Would not that suffice from the point of view of the consumer?

Mr. MACDONALD: I would still submit it would be very difficult to do that within these tolerances.

Mr. URIE: I should not have thought so, in view of the evidence we had before us earlier, that it would be difficult to prepare charts or tables to disclose it in that way and that they would not be as columinous as you have thought.

Mr. MACDONALD: If you use the constant dollars per hundred charge—let us call it \$7 per hundred, that chart will reflect a difference, when using \$7 on a 12-month basis, \$14 on a 24-month basis or \$14 on a 36-month basis. Mr. Liston and if he wants it for 27 months—

Mr. URIE: This is a point which I think refutes to some extent your argument that dollar amounts give a fair method of comparison. I am sure you would agree, Mr. Liston, Mr. Brown and all you gentlemen, that the way you merchants get around this in the table is that you say you buy for \$3.22 down. But frequently it does not say whether the cash price is to be paid over 19, 17 or 16 months. And the competitor uses a different period, so it does not give really an accurate idea of what is being paid. That is the precise reason why I think most people in this committee are exploring the possibility of having a simple annual rate, so that there is an accurate rate of comparison.

Mr. MACDONALD: I might give you a further example. Besides the monthly payment transactions, there are of course seasonal transactions, pay after Christmas, pay after school starts and so on, plus the fact that most customers elect a payment date in accordance with the date they receive their salary payments—after that—it may be a week, two weeks, a month or six weeks. In each case it will reflect a different yield on the same dollar charge.

Mr. URIE: Would not the dollar amount which you charge reflect the difference in your charge to the customer?

Mr. MACDONALD: We do not charge for the extra 15 days.

Mr. URIE: In other words it does not matter?

Mr. MACDONALD: We average it up on the yield, but the yield would be considerably different if you were forced to reflect this per cent per annum.

For example, the 15 days allowance will mean one thing, whereas if it is 30 or 35 days it will throw the income calculations out at least one per cent.

Mr. URIE: But you never start to charge interest in any event until the next billing day, or 30 days.

Mr. MACDONALD: I am speaking of the instalment plan.

Mr. NASSERDEN: I think we have learned a lot here and that we might call it a day.

Co-Chairman Mr. GREENE: Is there any objection to limitation of interest that your delegation has, with the exception of the fact of the fluctuating money markets? Is that the only objection you have?

Mr. BROWN: Things are not static. The legislation which will give effect to them is, I think, the basic problem.

Mr. BASFORD: You have great reservation about putting a limitation on it. I wonder if you are in favour of lifting the limitation?

Mr. BROWN: That rate is not a realistic rate today, the six per cent to which they are limited. I think the submission they have made is quite correct, that there should be a greater spread, and some people might get it for less money because their credit rating is better; however, that is a different matter.

Mr. OTTO: I think you know, Mr. Brown, that the purpose of this committee is not to crucify anyone, but we know that there are many people who do suffer hardships because of credit buying. It was the co-chairman, Senator Croll's original question whether some of this is not due to the failure to disclose. In your brief you have stated the reasons this would not be the answer. What in your opinion, or in the opinion of the chambers of commerce, would be the answer to the evils to some people of credit buying?

Mr. BROWN: I realize, Mr. Chairman, that that question has been postponed, or at least the answer to it, until this point. What we might say now is not an answer that is agreed upon by either the executive council or by the Canadian Chamber of Commerce. However, Mr. MacDonald has made a suggestion already, expressing a thought which many of us have had, that in some areas a dollar cost per hundred per annum might be the best way to approach the problem, disclosing that not as a limitation but requiring a disclosure of that amount.

Now, this creates problems for the revolving accounts, as Mr. Liston has said, and it could well be that the course which I believe Alberta is considering, of excluding revolving accounts from such requirements might be the way out. Here, frankly, we are with you, as I said in my opening remarks. There have been things that should not have happened in Canada, and we appreciate that you are searching for an answer to this question. If we can be of some assistance now in looking at this problem, we shall have been well served in coming to Ottawa to do so, from Toronto and Montreal.

I do not know that there is more than I can add at this point, unless it is to say, Mr. Chairman, that if there are documents here that we have had that can be of use to you and members of your committee, we would be glad to try to supply them. For instance, there is one I have here, entitled, "Excerpts from studies in consumer credit, No. 2. Methods of stating consumer finance charges," by Robert W. Johnson, of Columbia University.

Co-Chairman Senator CROLL: The Federated Council of Finance in Toronto will be represented here.

Mr. BROWN: The other document is "A review of credit legislation in 1963 and 1964", published in New York.

Co-chairman Mr. GREENE: Might I ask Mr. Brown if he could make sufficient copies available so that all members of the committee could have a copy?

I want to thank you and your delegation, Mr. Brown, for the most useful contribution you have made to our deliberations. We do not want you to feel that you are "whipping boys," in any shape or form. I think possibly the large majority here are votaries of the private enterprise system, who want it to work fairly and efficiently. That is the end we have in mind. Your contribution has been a useful one, and we thank you for your attendance here.

Before closing, may I say that we had a meeting and discussions with the Ontario Association on Consumers Credit, with the view of forming a joint committee. These discussions are still proceeding.

The committee adjourned.

APPENDIX "T"

SUBMISSION OF THE EXECUTIVE COUNCIL
TO
THE SPECIAL JOINT COMMITTEE
OF
THE SENATE AND HOUSE OF COMMONS
ON
CONSUMER CREDIT

October, 1964

The Honourable Senator David A. Croll,
Mr. J. J. Greene, M.P.,
Joint Chairmen,
The Special Joint Committee of The Senate
and House of Commons on Consumer Credit
Ottawa, Ontario.

Gentlemen:

1. The Executive Council of The Canadian Chamber of Commerce appreciates the opportunity to make a submission to the Special Joint Committee of the Senate and House of Commons on Consumer Credit and expresses the hope that it can make a useful contribution to your study on this matter. The Executive Council is appointed by the National Board of Directors, the governing body of the Chamber, to carry on the ordinary business of the Chamber in between meetings of the Board.

2. The Canadian Chamber of Commerce is the national voluntary federation of over 850 community Boards of Trade and Chambers of Commerce (the terms are synonymous) throughout Canada. These community Boards and Chambers are established to promote the civic, commercial, industrial and agricultural progress of the communities and districts in which they operate, 75% of these Boards and Chambers serve communities of less than 5,000 population. In addition to these organization members, the Chamber includes 2,700 corporation members composed of businesses of all sizes and in all geographic locations as well as 25 association members.

3. Of the approximately \$5,375,000,000 of consumer credit outstanding on December 31, 1963, \$3,300,000,000 approximately was in loan credit and was principally in the hands of the chartered banks, personal loan companies and credit unions. As the many ramifications of consumer credit affecting the operation of these groups are extensive, complex and varied, we propose to leave any views or recommendations to those directly interested who can be ably represented by their respective associations. We do propose to express some views and recommendations in respect to the balance of the outstandings represented by an amount of \$2,016,000,000 which is exclusive of \$54,000,000 owing to oil companies through the use of credit cards. This segment of the total—38 per cent—is purchase credit and is created—not by loans—but by way of credit sales by retail merchants.

4. Each of the transactions comprising this total had its origin at the point of sale in the hands of the retail merchant or dealer. 54 per cent of this segment of outstanding credit was retained and administered by retailers. The balance was assigned to sales finance companies.

5. We are in full agreement with the contention that the user of credit be in a position to know what the use of credit is costing him. We submit, however, that the recommendation of the Royal Commission on Banking and Finance that credit grantors be required to disclose the effective rate of interest charged on accounts arising from the sale of goods or services will not accomplish this purpose in respect of such transactions. We support the presently widely practiced policy of disclosing the dollar amount of finance charges. In light of the special interest already shown by your Committee in the disclosure aspect of consumer credit costs we are concentrating our remarks in this submission in the method of stating the price of credit for purchases made at the retail level.

6. We submit that a requirement to convert dollar charges to a rate of interest per annum is a complicated and in some cases impractical procedure. We submit that efforts in this direction will lead to obscuring rather than clarifying credit charges, will increase costs of doing business and because of the complicated procedures involved will work a hardship particularly upon smaller merchants.

7. It is apparent that the amount of consumer credit which originates at the point of sale is a vital part of the total and it would be this segment most directly affected by any legislation calling for interest rate form of disclosure.

8. Cognizance must be given to the fact that interest is only one element in the cost of extension of credit on merchandise sales. The other costs, including investigation, setting up of accounts, handling of payments, collections and reserve for losses could be greater than the element of interest or the price for the use of money.

9. Furthermore, many of the items of cost (non interest) are present no matter how small the balance and so rates of charge on smaller purchases will be considerably higher than rates of charge for credit on larger purchases. Further complicating ready calculation of yield is the fact that even though the charge per \$100 per 12 equal monthly instalments be constant the per annum interest factor varies as to term. Example: a charge of \$9.00 per \$100 per year at 12 months produces a different interest rate equivalent than a \$18.00 charge for \$100.00 for 24 months, and a \$27.00 charge for 36 months is different again, even though in each of the examples payments are made at exactly equal intervals. As a result, the calculation of yield becomes extremely involved.

10. Since the extension of credit on the sale of merchandise involves providing services and facilities that do not vary in direct constant relationship with the amount of an individual sale and the length of time allowed for repayment and since the cost of handling items of small value almost invariably will be proportionally greater than for items of larger value, it is extremely difficult to relate each charge into comprehensible per annum rates and hence into what would appear to be reasonable rates of charge. There is a minimum cost per account and per instalment to handle an average credit transaction, with no regard to use of money or reserve for loss. Such costs expressed as rates per annum may appear unreasonable in relation to small sales balances although the amount is required to cover the merchant's additional expenses in providing instalment sales service.

11. The suggestion of the Royal Commission on Banking and Finance that the distribution of approved rate books by the grantors of credit would minimize the difficulty of calculation is acceptable as far as it goes. The credit plans in general use in trade however involve so many variables that to convert these credit charges to a simple annual interest rate is impossible without substantial

additional cost. Contracts of sale will frequently involve lay away plans, holiday plans, seasonal payments, skip payments, bulk payments or any number of irregular payment plans in common use, the calculation of charge in terms of annual interest rate on these plans requiring the consultation of trained experts. Furthermore, no mathematical formula is adequate to allow the retailer to permit the adding of a new purchase to an instalment account that is already running. Such calculation could not be expected of the average sales person who is selected and trained to sell and is not an accomplished accountant or mathematician.

12. With revolving accounts, the calculation of a simple monthly or a simple annual rate is impossible to provide at the initial point of transaction since purchases may be made at various times during the month and settlements or date of settlement cannot be anticipated. Neither the creditor nor the purchaser can know, at the time, what amounts will be charged, the time each amount will be outstanding or the dates or amounts of payments that will be made. Yet such information is absolutely essential in computing an accurate "simple" monthly or annual rate.

13. Apart from the impossibility of accurately converting dollar charges to per annum rates of interest, on most transactions, such conversions would be of little practical value to consumers. Being able to check the accuracy of the dollar charge according to a specified interest rate, or checking the accuracy of the interest rate according to the dollar charge would involve complex calculations and most consumers would be unable or unwilling to bother checking.

14. It is therefore our contention that any legislation calling for interest rate form of disclosure in the finance charge for credit sales is unnecessary and impractical of application.

15. Since the cost of credit is effectively the difference between the cash sale price and the time sale price it may be contended that it is unreasonable to ask that this mark-up be expressed in terms of an annual rate per year. No legislation exists requiring that any other ingredient of price or difference between the cost and selling price be expressed in terms of percentage or in fact be disclosed.

16. Some benefit might be derived from recent experience in the Province of Manitoba. In May, 1962, that province's Legislature passed the "Time Sale Agreement Act"—Bill 101, which among other things, called for disclosure of certain charges in terms of a per annum rate of interest. This Bill was never proclaimed because apparently in the interval it became obvious that it was going to impose very complex, complicated and burdensome requirements on the retail merchants of the province. Accordingly, an amendment act—Bill 58—was assented to in May, 1963, which became effective in September, 1963. This amendment deleted all reference to interest.

17. Because credit for the purchase of goods is extended by thousands of retail merchants, mostly very small business but some very large, it is highly competitive. The extremely keen competition exerts the same competitive pressures in respect to credit prices (purchase price *plus* charge for credit) as is the case with cash prices. Prospective buyers compare cash prices on the dollars and cents cost to them not on the rate of mark-up from the wholesale price to retail price. Similarly prospective buyers can compare intelligently and easily the cost of buying on credit if that cost is clearly declared in dollars, a practice we advocate. If there is any better way of serving or attracting the consumer, the great weight of competition would surely bring it into practice.

18. Credit is the vital bridge that links mass production to mass consumption and undue tampering with its delicate mechanism can have a serious adverse effect on our economy—an effect that will be felt not only by producers

and retailers who are directly concerned but throughout the whole economy. Any legislation calling for interest rate disclosure would tend to complicate, impede and retard the extension of credit at the retail level and it could have serious implications for the sale of goods and for the success of thousands of merchants in Canada, particularly the thousands of small dealers and retailers.

19. In summary then it is contended that the conversion of credit charges to interest per annum and the stating of same in a contract at the time of sale (1) is not practical in the case of all credit transactions; (2) that such legislation would seriously affect sales; (3) that the results would involve increased costs; (4) that such practise would tend to obscure rather than clarify credit costs and (5) that the requirement would impose a problem on all retailers but would particularly work a hardship on small merchants.

20. The proposal that vendors should disclose the effective rate of interest charged on accounts is one, in the view of the Executive Council, which would burden business with unnecessary and time-consuming operations and is impractical. The Executive Council reiterates its support of disclosing the dollar amount of finance charges. This is clear and understandable, and by comparison with the cash price of goods or services, the purchaser can readily determine the premium he is paying for a credit rather than a cash transaction.

21. We would urge that the foregoing views be given full consideration by your Committee.

Yours sincerely,

G. Egerton Brown,
Chairman,
Executive Council.



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 9

TUESDAY, NOVEMBER 10, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

WITNESS:

Dr. Jacob S. Ziegel, Associate Professor of Law, University of
Saskatchewan

APPENDIX

G—Brief from Dr. Jacob S. Ziegel.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-
Rainy River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Orlikow
Otto
Ryan
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved—That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate

and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LEON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LEON J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

JOINT COMMITTEE

Senate

TUESDAY, March 17, 1964.

Bill S-3, intituled: An Act to make Provisions for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act.)

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, November 10, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Irvine and Smith (*Queens-Shelburne*), and

House of Commons: Messrs. Greene (*Joint Chairman*), Bell, Clancy, Miss Jewett, Messrs. Macdonald, Mandziuk and Otto.—10.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Macdonald, it was Resolved to print the brief submitted by Dr. Jacob S. Ziegel, Associate Professor of Law, University of Saskatchewan as appendix G to these proceedings.

The following witness was heard: Dr. Jacob S. Ziegel, Associate Professor of Law, University of Saskatchewan.

At 12.55 p.m. the Committee adjourned until Tuesday next, November 17th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 10, 1964

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

A motion was adopted that the brief prepared by Professor Jacob S. Ziegel, Associate Professor of Law, University of Saskatchewan, be printed in the report of the proceedings.

(See Appendix "C")

Co-Chairman Senator CROLL: Professor Ziegel is a member of the British Columbia Bar and the English Bar. He is a professor of law at the University of Saskatchewan; and he has made a special study of consumer credit. He has written and spoken on consumer credit, and recently appeared before the committee on consumer credit in the Province of Ontario.

After talking to Professor Ziegel, I thought we would let him give his evidence, without questioning. Kindly make notes so that you can question him afterwards.

Professor Jacob S. Ziegel, Associate Professor of Law, University of Saskatchewan: Messrs. Chairmen, honourable senators and members, I am glad to be before the committee today and to be of such assistance to the committee as I can.

Before I start, Mr. Chairman, may I say that in addition to the brief which is before us today, I have dictated some notes on the constitutional position. These notes should be available in the next few days. Might I ask that this supplementary brief, when ready, also be a part of the proceedings?

Co-Chairman Senator CROLL: With permission, yes, it will become part of the proceedings. Agreed?

Hon. MEMBERS: Agreed.

Prof. ZIEGEL: Thank you, Mr. Chairman.

Co-Chairman Senator CROLL: Before the brief comes here, I presume you will cover the constitutional aspect today?

Prof. ZIEGEL: Yes, indeed. Mr. Chairman, I should like to break down my submissions today into several parts. With your permission, I would like to start off by reviewing briefly the range of problems encountered in the field of consumer credit, and to discuss the legislation that has been adopted to date in the other provinces, and several other countries, mainly the United States, the United Kingdom and Australia. Thirdly, I should like to direct some specific comments to the disclosure problem, which I know has been much canvassed before this and other committees. Finally, I should like to offer a few comments on the constitutional aspects of consumer credit regulation in Canada.

To begin with the first part, Mr. Chairman, it seems to me that the range of consumer problems in the credit field can be broken down into four or five principal heads. The first is the maintenance of sound credit standards. The second is the protection of the consumer against financial exploitation. The third is the exclusion of unconscionable terms in the agreement, other than those relating to finance charges and other financial obligations. The fourth is the protection of the buyers in cases of default. Finally, there is the question of the best way to proceed to enforce the protective legislation.

To begin with the first head, the maintenance of sound credit standards, there is widespread evidence that some consumers are over-extending themselves, and this has caused increasing concern. There are various methods by which this problem can be tackled, some direct, some indirect. The most direct method that has been adopted in some countries is to impose minimum down-payment terms and maximum maturity periods. Indirect methods are the regulation of finance charges and restrictions on rights of foreclosure. These are indirect methods, Mr. Chairman, because indirectly they affect the type of consumers with whom credit grantors are prepared to deal. It will be appreciated that if the credit grantor does not have the right to charge unlimited finance charges or does not have an unlimited right to repossess goods, he will be that much more careful in considering the types of persons with whom he will deal. It might be thought that it would be in the interest of credit grantors themselves to exercise care in the selection of persons with whom they are ready to deal, and in theory this is so. However, it breaks down in practice because of the competitive pressures in the industry. Once one credit grantor reduces his credit standards others are forced to follow suit. This was vividly illustrated in the United Kingdom a few years ago when there was very keen competition among hire-purchase companies to attract business, with the result that the companies eventually lost very large sums of money, and in this way learned the hard way that it does not pay to attract business at any price.

Methods to prevent financial exploitation take several forms. One way is to regulate maximum finance charges. This, of course, has already been done in Canada with respect to small loans; and, as I hope to point out later, it has been very widely adopted in the United States with respect to other forms of consumer credit. Another one is the so-called disclosure method. If a consumer is told the finance charge that he has to pay for the credit services being extended to him, both in dollar terms and in terms of percentage rate per annum, then he is in a position, if so minded, to shop around and ascertain which is the cheapest form of credit.

Apart from the finance charge itself, there are several ancillary problems which have to be considered. One of the major problems concerns dealer commissions or reserves. As the committee is no doubt aware, in the case of the financing of motor vehicles it has long been the practice of sales finance companies to pay the dealer a proportion of the finance charge in consideration of the dealer offering his piece of paper for sale. In practice this commission or dealer's reserve has reached proportions as high as 40 per cent of the total finance charge.

Co-Chairman Senator CROLL: What per cent?

Prof. ZIEGEL: Forty per cent. Of course, I am not suggesting the percentage is that high at the present time. I am merely indicating the sort of heights it has reached in the past.

The reason it has given such concern to observers in this field is that it is found, in practice, that high dealer reserves tend to increase the finance charge the consumer has to pay. The reason why this is possible is that in

the past the consumer has not been very finance charge conscious. Thus the attention of sales finance companies has been focused on trying to obtain the dealer's business rather than persuading the consumer to deal with a particular company. It will be appreciated that in the sales finance field the finance company deals directly, not with the consumer but with the dealer from whom the sales finance company obtains its business.

Another problem that has to be considered is the consumer's right to a rebate in case he should decide to prepay the balance outstanding on his contract. There are a variety of reasons why the consumer should wish or have to pay out the balance before its due period. The most common reason is that the consumer wishes to trade in existing goods, usually a car, for the purchase of another good, usually another car. Before he can do so, of course, he has to pay out the finance company. A less common reason is the death of the purchaser.

The question which arises in these cases is whether the consumer is entitled to a rebate of the finance charge. He has no such right at common law. This has now been pretty well established in Canada in several decisions. In practice, finance companies do offer the purchaser a voluntary rebate. The question arises whether this practice should not be made a rule of law. The practice differs somewhat from company to company, some companies being more generous than others.

Finally, there is an aggregation of smaller problems, such as delinquency charges and other penalties that may be made against the consumer for late payments. All these problems come under the heading of protecting the consumer against financial exploitation.

That brings me to the third important range of problems in the consumer credit field, and that is in connection with the terms of the agreement itself. Nowadays the terms of most consumer credit agreements are fairly uniform as to substance, if not as to detail. I should add that when I am talking about agreements I am thinking primarily of conditional sale agreements and other time-sale agreements, because it is in this region many of the problems have arisen in the past.

Some of the most objectionable clauses in time-sale agreements are the following: first of all, it is the almost invariable practice that the buyer is required to waive the rights which the common law and the various provincial sale of goods acts confer on him with respect to the quality and fitness of the goods he purchases. Under the Sale of Goods Act—and each of the provinces has the same act—the consumer is entitled to obtain goods which, to use the words of the act, are “merchantable” and “fit for the purpose for which they have been bought”. This is a most important protection for the buyer. Almost invariably the time-sale agreement seeks to exclude these statutory rights, with the result that if the goods turn out to be unsatisfactory and the consumer complains, he is frequently, at least in litigation, met with the defence that these statutory rights have been waived in the agreement.

A second, highly objectionable clause is the so-called “cut-off” or “waiver of defences” clause. You will find, Mr. Chairman, that as an appendix to my brief I have exhibited a typical conditional sale contract, and on the second page of that contract—which really represents the reverse side of the original form—I have placed a mark against clauses 5 and 6, to draw attention to these two objectionable clauses.

Clause 5 reads—and I am quoting from the terms of the conditional sale contract:

Purchaser acknowledges that this agreement constitutes the entire contract and that there are no representations, warranties, or conditions, expressed or implied, statutory or otherwise, other than as contained herein.

As I say, this is the clause which in practice is used to defeat the buyer's defence that the goods sold to him are not merchantable or are unfit for the purpose for which he intended them.

Clause 6 is the cut-off clause to which I referred a minute ago. Its purpose is to enable the finance company which purchases the paper from a dealer to isolate itself from disputes between the buyer and the dealer. Clause 6 provides, in effect, that the purchaser takes notice that the agreement, together with the vendor's title to, property in and ownership of the said goods and the promissory note are to be forthwith assigned to the stated finance company, and that he will not raise any defences with respect to the goods or anything connected therewith against the finance company. The evil of this clause is, of course, that the buyer who unwittingly signs the agreement hardly ever reads it, and even if he does he does not understand what it is all about. The result has been, therefore, that over the years—and this problem is at least 30 years old—time and again when the consumer has been involved in litigation with a finance company, and has complained that the goods are not merchantable or fit for the purpose for which he bought them, he has been confronted with this clause, and nine times out of ten the courts have given effect to it.

The third objectionable feature, not so much in the agreement itself but accompanying the agreement, is the promissory note, the purpose of which is very much the same as that of clause 6. The note is negotiated by the dealer to the finance company, thus ostensibly giving the finance company the protection of the Bills of Exchange Act. Members may be aware that under that act the holder of the note is entitled to claim the amount promised without regard to any equities that may exist between the promisor and the promisee—in our case, the buyer and the seller.

Here again I think the evil lies in the fact that the consumer who unwittingly signs a promissory note does not realize that in so signing it he is bargaining away statutory rights which the Sale of Goods Act would otherwise imply in his favour. I am quite sure, Mr. Chairman, that if the law surrounding a promissory note were explained to a consumer he would not agree to sign it.

There has been much litigation over the last two years with respect to this problem of the promissory note, and with respect to complaints from consumers about defective goods, and sometimes about goods which were never delivered. The current state of the law is highly unsatisfactory. There are several conflicting decisions and it is becoming increasingly difficult to determine beforehand how the courts will decide a particular dispute. I shall endeavour to indicate later on how I think this problem can best be dealt with by legislation.

The fourth range of consumer problems concerns the consumer's position when he is in default. There are two problems here. One is whether the consumer should be suable for the balance of the price or whether there should be some sort of judicial intervention. The other problem, the more important one, and one which has engaged the most attention, is whether the seller should be entitled to repossess the goods as soon as there is any default or whether he should have to give some prior notice to the buyer. Should he have to apply to a court for leave to repossess, as is the case, for example, in respect of mortgages relating to realty? If he does have to apply for leave to repossess, should the court have a discretion whether to grant the order, or should the court be entitled to defer repossession pending a readjustment of the terms of payment? I have, perhaps, somewhat simplified the range of problems under this head.

The fifth problem concerns the question of remedies and procedure. This is somewhat technical, and I do not suppose the committee would want me to say very much about it. Suffice it to say that one of the principal questions

here is whether it is desirable to license sales finance companies and other financial institutions granting consumer credit in the same way that small loan companies are now required to be licensed under the Small Loans Act.

With these preliminary remarks, Mr. Chairman, may I summarize briefly the type of legislation that has been adopted in the various provinces to date. The first comment that I think is fair to make is that the amount of legislation, and the quality of it, varies a great deal from province to province. Some provinces, like British Columbia and, perhaps a little surprisingly, Ontario, have very little such legislation to date. Other provinces, such as Alberta and especially Saskatchewan, have a great deal of legislation, and have done much to try to protect the consumer in at least certain types of consumer credit transactions. Historically, the type of problem that first engaged the attention of the legislatures in Canada was the problem of repossessions—the problem of trying to protect the buyer's equity in case of default. This legislation still exists today and is found as part of the conditional sales acts. These provisions usually provide, where the consumer is in default and the seller repossesses the goods, that before the goods are sold the seller must wait a period of usually 30 days, during which the buyer has the right to redeem the goods. If the seller decides to sell the goods and still look to the buyer for any deficiency, he is required to give the buyer notice of the sale, and various other particulars concerning it.

The next important measures were adopted in the 1920's and the early 1930's by the Prairie provinces, namely, Saskatchewan and Alberta. That legislation again was designed to protect the buyer's equity in the goods or to limit the seller's right to sue for any unpaid balance once he had repossessed the goods. The Alberta Seizures Act, which was adopted first, if I remember correctly, in about 1914 and was much revised in 1929, requires the seller to elect, in the case of the buyer's default, between repossessing the goods and suing for the price. He cannot do both. Saskatchewan has gone a step further. It does not permit the seller to sue for the price at all, but restricts him to repossessing the goods.

The Saskatchewan and Alberta legislation which I have described has since been copied by several other provinces, notably by Quebec, Newfoundland and the Northwest Territories. Saskatchewan adopted some further legislation just before the war which was copied from the English Hire-Purchase Act of 1938, and which was designed to protect the buyer against the type of clauses that I have already described, namely, the clauses which seek to deprive the buyer of his right to complain about defective goods.

Since World War II there have been a number of new developments, of which undoubtedly legislation relating to disclosure requirements is the most important. Before I deal with that legislation perhaps I should make some brief reference to the Quebec situation. Quebec had no instalment sales legislation at all until 1947, and the act that was passed, which is a very interesting act, seems to be based on a variety of sources. In any event, it sets down minimum down payments and maximum maturity requirements. It regulates maximum finance charges. It entitles the buyer to a rebate in the case of prepayment. It copies the Alberta act in so far as it requires the seller to elect between either suing for the price or recovering the goods. Finally, it also deals with other unconscionable clauses in the agreement by setting forth a statutory form of agreement which cannot be altered by the seller. Therefore, it will be seen that the Quebec legislation of 1947, which is now a part of the Quebec Civil Code, deals with many of the problems which are generally encountered in this area.

However, the act suffers from serious drawbacks. It is limited to sales up to \$800 and does not include a large variety of goods—including, surprisingly,

motor vehicles. The act is therefore more useful as a precedent than for its actual benefits in practice.

I have mentioned the legislation regarding disclosure of the financial components of the agreement. Quebec already dealt with this problem a little bit in its act of 1947, by requiring all agreements to segregate the cash price, the finance charge, and the so-called time sale price. It does not, however, require the finance charge to be stated in terms of a percentage.

Alberta adopted similar requirements in its Time Sale Agreement Act of 1954. That act was revived last year and now requires the percentage rate to be disclosed. However, that portion of the act does not come into effect until it has been promulgated by an order in council. As far as I am aware, that order in council has not yet been made.

Manitoba also adopted a special act in 1962. This one, like the 1963 amendment to the Alberta act, did require disclosure of the interest rate. The act was very badly drafted and encountered a great deal of opposition from the business community. It was therefore amended last year and this time all references to a disclosure in terms of a percentage have been deleted. Why that was done I do not know.

Mr. Chairman, that is a summary of some of the legislation which has been adopted in the provinces to date. I have omitted some special legislation, such as legislation in the prairie provinces concerning the sale of farm machinery and farm implements.

Perhaps I might say something now about the legislation which has been adopted in other countries. It is of course common knowledge that the United States has the highest volume of consumer credit in the world. The sequence of legislation there has followed a pattern very similar to that in Canada. Perhaps I should put it the other way around and say that the pattern of development in Canada is somewhat similar to that in the United States.

The first concern of the United States was to protect the buyer's equity. This was done in an act known as the Uniform Conditional Sales Act which was adopted in the United States in 1918. Parenthetically I might mention that our own Uniform Conditional Sales Act borrowed some provisions from the American one. Then, in the early 1930s, a number of states became very concerned about financial exploitation of the consumer. An increasing number of states set up investigating commissions to examine the problem. They almost uniformly reported that there were abuses in the field and they recommended remedial legislation.

Indiana and Wisconsin were two of the states which took early action in this field, in 1935. That precedent has been increasingly followed in other American states. At the present time, more than 30 states regulate maximum finance charges and have some sort of disclosure requirements. This is in addition to the earlier legislation seeking to protect the buyer's equity in the goods, to which I have already alluded.

The tendency in the United States is increasingly to regulate all aspects of the consumer credit industry. A typical example of that is New York. New York now has legislation regulating consumer loans; it regulates conditional sales and similar forms of instalment sales; it has legislation regulating revolving credit and charge accounts by retailers; and it also has legislation regulating finance charges charged by service industries. Therefore, I say, the tendency in the United States is increasingly to legislate all the important aspects of the whole consumer credit industry.

To look briefly at the United Kingdom, consumer credit in the United Kingdom is somewhat different from that over here. The principal difference is that they have nothing like our small loans companies. This is an interesting sociological fact, not perhaps easy to explain, but there the fact is. They do not have small loan companies and they have very few small loans extended

by agencies other than the banks. This means that they have not been confronted so far with this particular problem, nor has the United Kingdom been confronted with the second mortgage problem that has caused so much trouble in Canada. This is, I believe, because, in the overwhelming majority of cases, most buyers of houses are able to get a 90 per cent first mortgage so they do not have to go to other agencies to procure a second mortgage.

Most consumer credit in the United Kingdom takes the form of hire purchase credit. "Hire purchase" is merely the British term for "conditional sales." There are some technical distinctions between the two devices, but I do not think I need bother the committee with them. At the present time, hire purchase credit in the aggregate is around \$3,000 million per annum, so it will be appreciated that it is very considerable.

The United Kingdom had no legislation at all until 1938, when a private member's bill was adopted, known as the Hire Purchase Act of 1938. That act attempted to deal with the then prevailing abuses. First, it imposed certain disclosure requirements; secondly, it sought to prevent harsh repossession practices; thirdly, it protected the buyer against being required to waive his statutory rights with respect to the condition and quality of the goods. These problems were dealt with in the following manner. Information was required in every case concerning the financial components of the agreement and the buyer was required to be given a copy of the agreement in every case.

Problems concerning the "snatch back" are dealt with by requiring the seller who wishes to repossess the goods to apply to the court where more than one-third of the hire-purchase price has been paid. The court is then given a complete discretion whether to allow the seller to repossess the goods or whether to adjust the terms of payment and to permit the buyer to continue payments in such amounts as the court sees fit to require. The problem of waiver clauses was dealt with by outlawing any clause in any agreement which purported to deprive the buyer of his statutory rights with respect to the quality and fitness of the goods.

Since 1938 the United Kingdom—principally England, because some of the parts of the United Kingdom have their own legislation—has adopted three further acts. England, therefore, while initially having been slow to enact legislation, is rapidly catching up on other countries in the Western hemisphere. The first act was the Hire-Purchase Act, 1954. This raised the financial limits of the 1938 act from £100 sterling to £300 sterling. The second act, and one which may be of particular interest to this committee, is the Advertisements (Hire-Purchase) Act of 1957. This was intended to deal with abuses to which I have referred already, namely, misleading types of advertisements which held out to the buyer all the great attractions of being able to purchase goods on time, but did not disclose all the financial aspects of the prospective purchase in such a way that the buyer would appreciate that there were burdens as well as benefits that went with hire-purchase agreements.

The 1957 act provides that if a seller who is advertising his goods for sale on time purports to state any part of the financial terms of the prospective agreement, then he must state them all. He cannot simply say, "Yours, for only a dollar down." He must state the down payment, the monthly payments, the cash price and also the total time payment price.

The third act which has been adopted since 1938 is the Hire-Purchase Act 1964, which will come into effect on January 1 of next year. That act was adopted as the result of the recommendations of a special committee on consumer protection set up by the Board of Trade a few years ago, and which reported in 1962. The act is very detailed, complex and technical, and I would

not wish to burden the committee by trying to go into any of its details. However, I will mention, if I may, two features of the act which I think will be of interest to the committee. The first is that the act now covers all hire purchase transactions up to £2,000, or roughly \$6,000. I mention this fact, Mr. Chairman, because I know that in the proceedings before this committee, and before other committees, the question of financial ceilings has been discussed. The Royal Commission on Banking and Finance recommended that the ceiling be raised to \$5,000. There has been some opposition to this. It seems to me however, that, as England shows, there is already a precedent for raising the limit, not only up to \$5,000, but, indeed, beyond that figure.

The second feature of the 1964 act is the one concerning sales not concluded on trade premises. There have been an increasing number of instances where ladies at home have been imposed upon by itinerant salesmen. The British act attempts to deal with this problem by giving every person who buys goods, other than on trade premises, the right to cancel the agreement within a given number of days after which such person signs the initial contract.

I should also like to mention that last year a Consumer Council was set up in the United Kingdom, pursuant to another recommendation of the Molony committee. This Council has a full-time remunerated staff, consisting of a director, legal adviser and other personnel, as well as a number of part-time members. The committee receives an annual grant from the Government, which for this year is about £125,000. The reason this Council was set up was that the committee found that consumer problems had become so increasingly complex and had changed so much in their nature over the years, that there was need for them to receive continuous attention and study.

Let me turn somewhat briefly now to Australia. Australia, like Canada, has a very high volume of consumer credit, running into several thousand million dollars a year. Again, however, as in the case in England, most of the consumer credit takes the form of hire purchase agreements. For a substantial number of years most of the Australian states had their own legislation, which varied considerably from state to state, as it does in Canada today. However, in 1959 the various Australian states got together at a special conference called for this purpose and agreed on a uniform hire purchase act. That act has since been adopted in all the Australian states as well as by the federal government. The result is that this important segment of consumer industry is now subject to a uniform code of regulations. It is an extremely comprehensive act and covers all but one of the principal heads I have discussed.

The one thing the uniform act does not deal with is the regulation of maximum finance charges. However, several of the states have their own legislation in this particular area.

Mr. Chairman, this is as much as I want to say about the legislation that has been adopted so far. I shall, of course, be happy to answer any questions, or to enlarge upon any points that I endeavoured to make.

Now I should like to deal with the question of the disclosure problem, because I know it has been very extensively canvassed before this committee.

For this purpose perhaps I can turn to page 34 of my brief, reading that portion of it, and enlarging on it at the same time:

Fair minded persons will agree that the consumer should be in a position to compare the finance charges of different retail outlets and financial agencies, just as he can compare the price of any other commodity, and that the simplest—if not, indeed, the only effective—way in which this end can be accomplished is if to require the finance charge to be stated in terms of a percentage rate.

I may pause here, Mr. Chairman, to point out that, so far as I am concerned, I do not suggest that disclosure in terms of prospective interest rate or in terms

of a dollar charge has anything to do with the stabilization of the economy. I mention this because this view has been put forward from time to time. It has been criticized by others. All I am saying is that this is not my reason for supporting a disclosure requirement. The principal reason is the one I have just stated, namely, to enable the consumer to compare the finance charges of different retail outlets and financial agencies. The brief goes on to say:

If these premises are granted, then convincing reasons would have to be shown why such a requirement should not be adopted by the legislature. Several such reasons have been advanced, and I should like to comment on them briefly. Before embarking on this task, however, a number of preliminary comments may be helpful.

First, the disclosure problem is growing in urgency because of the increasing number of outlets offering consumer credit and the lack of uniformity among them in the statement of their finance charges. Thus if the consumer wishes to finance the acquisition of an automobile, he can either borrow the money from a bank, a small loans company or a credit union, or he can purchase the car on conditional sales terms from an automobile dealer. But each of these outlets states its finance charge in a different way, so that the consumer has no ready way of ascertaining which of them offers him the cheapest form of credit. Moreover, units of the same type of financial agency may state their charge in different ways. The chartered banks, for example, state their charge for consumer loans in four different ways, namely, as an "add-on" charge, as a "discount" charge, as a simple rate of interest coupled with certain additional charges, and as a simple rate of interest with the loan being repayable by the "Morris Plan" method.

Perhaps I might explain, Mr. Chairman, that, as I understand it, the reason why the banks adopt these varying methods is because of the difficulties imposed on them under section 91 of the Bank Act. In the final part of my submission, Mr. Chairman, I shall revert to this particular problem.

Secondly, it is quite understandable that the business community should be opposed to such a disclosure law, nor are some of their arguments devoid of merit. Most laws which change the status quo are opposed by a section of the community. But this, of course, is not the end of the matter, for if it were, no legislation which did not win unanimous approval could ever be adopted. There is here a conflict of interests (though I think the conflict is more apparent than real) between two important sectors of the community, and as is so often the case in such conflicts the legislature has to make a judgment as to which of the two interests is the more important—the right of the consumer to know or the desirability of not complicating commercial transactions.

Thirdly, voluntary disclosure of the percentage rate is already made in some highly significant cases, namely, by small loans companies in the case of small loans and by such large retail chain stores as the T. Eaton Co. in respect of revolving charge accounts.

I wish to make one slight correction here, if I may, Mr. Chairman. It is quite true there is no requirement in the Small Loans Act which requires small loan companies to state their finance charge in terms of an annual rate of interest. However, Mr. MacGregor pointed out in his evidence before this committee earlier this year that the small loan companies are indirectly required to make this disclosure because of section 4 of the Interest Act, so I think I should make this modification to this part of my brief.

I have attached two specimen forms of contracts at the end of my brief from which the committee will see how the effective rate of interest is being

disclosed at the present time by these two companies. In the case of the small loans company the information appears roughly in the middle of the form which I have reproduced, against the marginal entry of, "Agreed rate of cost of loan including interest". The committee will notice the text there reads:

Two per cent per month (24 per cent per annum payable monthly) on any part of the unpaid principle balance not exceeding \$300: 1 per cent per month (12 per cent per annum payable monthly) on any part thereof exceeding \$300—

and so forth. That is in the case of small loans; and all the small loan companies follow a similar practice.

The disclosure portion of the T. Eaton Co. revolving credit plan appears in paragraph 2 of the agreement which I have reproduced. There is a small black mark in the margin of paragraph 2 which I inserted myself. The committee will notice that paragraph 2 reads:

that the Company shall debit my said account with a monthly service charge, until further notice to me, of 1½ per cent of the balance at the end of the previous month:

I may say, Mr. Chairman, I discovered a rather interesting fact when I appeared before the Ontario Committee a couple of weeks ago. This particular agreement is used by the T. Eaton Company in Saskatchewan. I understand they used a similar, if not identical, form of agreement in Ontario until a year or so ago, when, for reasons best known to themselves, the company changed this portion of its agreement so as to require the consumer to pay a predetermined dollar charge rather than a charge based on a rate of interest, as in the case of Saskatchewan. So, as I say, it is not true to say that the disclosure of the charge stated in terms of a percentage on the declining balance is anything novel in Canada. In fact, in some areas of the consumer credit industry it is already very well established.

Finally, in my opinion, full disclosure of the financial aspects of a consumer credit transaction will enhance the reputation of consumer credit agencies and increase public confidence in their integrity. Indirectly, therefore, the proposed law is itself in the best interest of the business community. This has been the experience in other fields, such as securities and company law legislation, where legal reforms were at first vigorously opposed but have now been accepted as normal and necessary measures for the protection of the public.

I think another excellent example of this is in the small loans industry itself, as Mr. MacGregor pointed out. Before the Small Loans Act of 1939 the money lenders in Canada had a dreadful reputation because they were so unregulated and because of the rampant abuses in the field. The 1939 act has now removed the abuses and given the small loans industry an integrity and reputation which it never had before. I think the small loan companies are the first to recognize this. So I feel the imposition of a disclosure law would, in the long run, have a sound effect. I do not accept the argument which has been put forward that the imposition of a disclosure law would affect the total volume of consumer credit.

I should now like to deal with the objections which have been raised against the proposed law:

(a) That it is misleading to describe a finance or carrying charge as "interest".

This appears to be largely a matter of semantics. How the percentage rate is described is not important. What is important is that the finance

charge be expressed as a percentage on the declining unpaid balance of the debt. The problem of how to describe the percentage rate has created no difficulties for such companies as the Household Finance Corporation or the T. Eaton Co. The small loans contract of the former describes the percentage charge as representing "the total cost of the loan". The revolving credit plan agreement of the latter company provides "that the company shall debit my said account with a monthly service charge, until further notice to me, of $1\frac{1}{2}$ per cent of the balance at the end of the previous month". Both descriptions are equally satisfactory.

It seems to me I have conceded a little too much in this paragraph. I have read so much of the alleged distinction between interest and the so-called finance charge that I, as a layman in these matters, had accepted the accuracy of these distinctions. However, I have now had the opportunity to discuss this matter with several economist friends, and most recently a friend who teaches economics at the University of Toronto and who is a specialist in monetary theory. He assures me it is quite incorrect to draw this distinction between the so-called interest element and the other components in finance charges. He assures me that, so far as economists are concerned, interest means the cost of the loan or other credit being extended. The economist looks at the finance charge in terms of what it costs the consumer or other borrower. He is not necessarily interested in the net rate of return to the lender or other credit grantor.

Co-Chairman Mr. GREENE: That interpretation is not the judicial interpretation.

Prof. ZIEGEL: I will come to that, if I may, in the constitutional aspects. I only wanted to bring this to the attention of the committee, because in the numerous briefs I have seen and no doubt the members of the committee have seen—this distinction has been attempted to be drawn. As I say, my economist friends assure me that this is not a distinction that an economist makes.

The second objection to a disclosure law that is raised is that where the credit is being extended for only a small amount the percentage rate will be high and the consumer will draw erroneous conclusions as to the profit made by the credit agency.

The answer to this argument is twofold. In the first place, the apprehensions as to the consumer's reaction are probably unfounded. Neither the small loan companies nor the large retail chain stores have suffered a loss of business as a result of stating their charges in percentage terms. Secondly, it is a question of educating the consumer. He should learn to appreciate—if he does not already do so—that consumer credit is considerably more expensive than other forms of credit. To the extent that disclosure of the percentage rate will bring home to the consumer this fact, this can only be regarded as a gain.

The third objection raised is that there are various ways of calculating the percentage rate, and that each of them gives a different result. I think the short answer to this problem is that the legislation can indicate which of the several available formulae shall be used. The Alberta Act, for example, empowers the Lieutenant Governor in Council to prescribe the appropriate formula.

The fourth objection is that it would take a small retailer a disproportionate amount of time to work out the correct percentage in each case, and that he could easily make a mistake. This objection, again, is one that can be easily answered, and I think the answer is that small retailers even now do not work out arithmetically the finance charge for each separate transaction. They use tables

of calculations which are freely available. I say in my brief that the tables of calculation are now generally in use by retailers, and they could just as easily be prepared for use under the new legislation.

The legislation could also provide that any percentage figure, taken from a table whose contents have been approved by the Superintendent of Insurance or some other designated official, shall be deemed to be correct and in conformity with the act. The act could further provide, as does the English legislation with respect to breaches under the hire purchase acts, that where the breach is inadvertent and the consumer has not been prejudiced by it, the court may waive an otherwise applicable penalty.

I think my answer to this particular objection can be summarized in this way: I would say that once the business community accepted in principle the notion of a disclosure law, then their representatives could get together with governmental representatives in order to iron out some of these technical details. I think that given goodwill on both sides, and a measure of give and take, an acceptable solution could be found to this technical problem as well as a number of others.

The fourth objection is that it would encourage retailers to bury some of the cost of credit in the cash price—I am afraid there is a typographical error in my brief—of the goods, so as to show a more favourable percentage figure. The danger of this happening on any extensive scale is, in my opinion, entirely a matter of speculation. In any event, the device would only be successful if all the merchants in a given trade follow suit. If they did not, the consumers would notice the difference in cash price and favour the merchant with the lower price with their custom.

The argument is also revealing because it tacitly admits that under the existing methods of stating finance charges the consumer cannot readily compare one finance charge with another. The reasoning which underlies this objection is also inconsistent with my next noted objection.

Another observation that is germane in this connection is that at the present time, in at least one important kind of consumer transaction, namely, the sale of cars, part of the retailer's profit is shifted from the cash price to the finance charge. So it seems to me that the proponents of objection (e) are being a little disingenuous when they try to convey the impression that every retailer apportions exactly the amount of profit in the cash sale price and the time sale price. This is certainly not the case in all transactions. There is a fair amount of interplay if I may use a neutral term, between the cash sale price and the time sale price, and perhaps this again can not be easily avoided. In any event, all this shows that the adoption of a disclosure law would introduce nothing novel into our time pricing system.

The next objection that is frequently raised is that the consumer is not rate conscious. In other words, it is said that the consumer wants to know the finance charge stated in terms of dollars and cents and not in terms of a rate of interest.

Here I think an historical note may be of some importance. The business community today freely concedes the right of the consumer to know the finance charge stated separately. This principle was by no means accepted in the 1930's. The reason why the early American and British legislation was made necessary was because the finance charge was not even being stated in terms of dollars and cents. This right was conceded only as the result of much pressure and successive legislation in various parts of the Western world. Again, it seems to me that the opponents of the disclosure law are being a little disingenuous here. It may be that once a disclosure law is adopted they will concede it as being just as natural as the consumer's present right to know the finance charges stated in terms of dollars and cents. In any event, I

would submit that, even if it were true that many consumers at the present time are not rate conscious, this is because of the consumer's ignorance; it is because he does not appreciate the importance of the finance charge being stated in terms of a percentage rate as well as in terms of dollars and cents. It is my opinion that once these matters are explained to the consumer he will see readily enough that the disclosure of the interest rate is important, and would want to have that information disclosed to him.

Finally, it seems to me, that to argue that because a consumer is not rate conscious the rate, therefore, should not be required to be disclosed to him is like saying that because a consumer does not appreciate the highly detrimental nature of some of the clauses in existing agreements these clauses should not be proscribed or regulated by legislation. In both cases it seems to me that we are dealing with an aspect of understandable consumer ignorance; and since there is not equality of bargaining power between the two parties the legislature is more than justified in intervening and seeking to redress some of the imbalance that exists in practice.

Another objection that is raised is that it is impossible to calculate the percentage rate in the case of revolving charge accounts where the amount outstanding at any particular time is unpredictable, and may fluctuate from month to month.

Two systems of calculating the charges on such accounts appear to be in use at the present time. The large retail stores, such as the T. Eaton Company and the Hudson's Bay Company, apply a uniform rate of charge, regardless of the amount outstanding at any time. That is, they charge a given percentage per month on the balance outstanding at the beginning of the preceding month. They are not worried by the fact that the balance outstanding may fluctuate from month to month. Other stores state their carrying charges in dollars and cents, and the charge does not bear a constant ratio to the amount outstanding.

This method does create a problem for the legislature. The problem could, however, be resolved by permitting such stores to state the percentage rate in terms of a monthly rate of the amount outstanding at the beginning of each preceding month, calculated to the nearest one-quarter of one per cent. The stores which presently use the second method would, of course, always be free to adopt a uniform percentage rate.

What I am trying to say here, Mr. Chairman, is that some of the smaller retail stores, instead of having a uniform rate per month on the amounts outstanding, have a dollar amount which varies slightly, but not all that much. In other words, if you converted the dollar rate into a percentage rate, you might find, on amounts of \$100 or less, the effective rate of interest might be, let us say, 18 per cent or 20 per cent, whereas if the amount outstanding is \$200 or more the effective rate of interest might be only 15 per cent. What I am suggesting is that this problem could be solved simply by permitting companies using revolving charge accounts to state the percentage rate, not as an annual rate but in terms of a monthly rate on the balance outstanding in the preceding month.

Another observation is in order, I think. It has been pointed out repeatedly that if a company states the charge it is making on the balance outstanding at the end of the preceding month, this is not necessarily the true rate of charge. It is not necessarily the true rate of charge because the consumer might make a substantial payment in the middle of the month and yet be charged the interest rate as if he had not made the payment until the end of the month. But the converse also holds true. You find in practice that retail stores frequently give the consumer credit for a given number of days. So the two things usually balance each other out. Sometimes the rate disclosed is a little too favourable to the consumer: sometimes it is not quite as favourable

to him. I must confess that this problem does not worry me at all, and I am sure it does not worry the consumer. If a consumer is told that the given rate is $1\frac{1}{2}$ per cent per month, I do not think it worries him because he may make a payment before the end of the particular month. I do not think he therefore feels he has been robbed or been misled. I think he would appreciate that he sometimes gains through obtaining a number of free days of credit. And he would regard this form of disclosure as being a fair one.

I think a similar observation may be made with respect to other types of consumer credit charges. It has been pointed out, for example, that if a consumer signs a contract, let us say, on the second of the month, the first payment may not be due until the middle of the next month. In other words he would be getting several days of free credit. Therefore, this might complicate the disclosure problem. But this is a purely technical problem, Mr. Chairman, and I think this type of problem could easily be resolved by discussions between the legislative draftsmen and the business community, once the business community accepted in principle the fairness of a disclosure law.

That, Mr. Chairman, is as much as I want to say about disclosure problems. I should like now to allude, if I may, to the constitutional aspects of consumer credit regulation in Canada. I must confess that my notes on this part of my submissions this morning are rather skimpy. I am speaking largely extempore.

Mr. MACDONALD: *Ex cathedra*?

Professor ZIEGEL: Definitely. I hope therefore that you will bear with me. It seems to me that the legislative field of power is divided between the provinces and the federal Government. The power of the provinces derives from their power to legislate under section 92(13) of the British North America Act with respect to Property and Civil Rights. This is of course the basis which justifies most of the existing provincial legislation in this field. I do not think I need to say any more about it.

The source of existing and potential federal legislation in the field is, I think, to be found in five headings of section 91 of the B.N.A. Act. These headings are as follows—under the Banking power, section 91(15); under the power to regulate bills of exchange and promissory notes, section 91(18); under the power to regulate Interest, section 91(19); under the power to regulate matters of Bankruptcy and Insolvency, section 91(21); and, finally, the Criminal Law power, section 91(27).

I should like to consider very briefly, if I may, the type of legislation which could be adopted under each of these headings and to some of the possible constitutional difficulties which may be encountered.

Let me begin with the banking power. The chartered banks do, of course, lend very large sums indeed for consumer credit purposes. That aspect of their activities is largely governed by section 91 of the Bank Act, that is, the section which imposes a ceiling of 6 per cent on all loans made by the banks. It seems to me that that section has some serious shortcomings and should be amended, and that a number of additional provisions should be added to the Bank Act with respect to the consumer credit extended by the banks. The changes I should like to recommend for consideration by this committee are the following.

First of all, section 91 should be amended so as to make it clear that, whatever percentage a bank is permitted to charge with respect to consumer loans, it should be an all inclusive percentage, just as now is the case with respect to small loans under the Small Loans Act.

Section 91 says the banks may charge 6 per cent. However, the act does not define what it means by "interest" or "charge" and in practice the banks have avoided the restrictions of section 91 by adding additional charges—not,

I hasten to add, for any objectionable reason, but simply because they find they cannot get a reasonable rate of return at 6 per cent in the case of consumer loans where the administrative overheads are much larger than in the case of commercial loans.

My second recommendation, Mr. Chairman, is that the percentage rate which banks may charge for consumer loans should be raised so as to allow the banks to make straightforward consumer loans without having to use the devious means I described earlier in order to obtain a reasonable rate of return. It seems to me most unfortunate, if I may say so, that if the consumer today goes to the bank in order to make use of the bank's personal loans schemes, he should find a different scheme in use almost in each of the chartered banks. As I say, I am not blaming the banks—I want to make this clear, Mr. Chairman—I am not blaming them; I think it is imposed on them because of the restrictions in section 91 of the act. Therefore, I would respectfully recommend that section 91 be amended in these two important respects.

Thirdly, I think it should be as obligatory on the banks as on any other section of the consumer credit industry to make full disclosure to the consumer. This is not being done at the present time. When the consumer signs a promissory note or other agreement for a loan from the bank, he is told simply the amount he gets and the number of monthly payments he has to make. He is not always told the finance charge or the rate of interest either in terms of dollars and cents or as an effective rate of interest. It seems to me only fair that there should be a uniform law in this respect.

Likewise, I think that certain restrictions should be imposed upon the form of advertising that the banks use for consumer credit loans—again, with a view to making full disclosure compulsory. May I please not be misunderstood. I am not suggesting that if a bank merely advertises that consumer credit is available and “please come and see us” that that should be sufficient. What I am suggesting is that if banks propose to give details of consumer credit loans, those details should be reasonably full and accurate. In other words, I am suggesting that there should be applied to banks the same type of legislation as is applied in England under the Advertisements (Hire-Purchase) Act 1957, to a hire purchase company which is advertising its goods.

Co-Chairman Mr. GREENE: I take it, Mr. Ziegel, that in your opinion these four suggestions are within the constitutional area?

Prof. ZIEGEL: Definitely. I think the Privy Council has on one occasion, and I think the Supreme Court on another, held that the federal Government has plenary powers in banks and banking. There is no doubt that the regulation of loans is an integral part of banking, in which case the federal Government would have plenary power to regulate all aspects of it, not because it is legislation affecting interest, but because it affects banks and banking.

My next suggestion would be—and this is of relatively minor importance, like my final suggestion—that the consumer should have a right of prepayment. There is an express provision in the Small Loans Act which gives him that right. I think he should have the same right in the case of chartered bank loans. For the sake of consistency in legislation, and to prevent charges of discrimination, I think the statutory provision would be valuable.

Finally, I think section 91 of the act needs to be clarified in another respect. The present section provides that if the bank's interest charge is more than 6 per cent, the borrower cannot be sued for it; but the section does not make it clear what is the position if the borrower in fact pays more than the maximum permitted rate. This problem came before the Privy Council at the turn of the century, in a case entitled *McHugh v. Union Bank of Canada*, and the Privy Council held that the borrower was not entitled to recover the excess he had paid, because he had paid it not under a mistake of fact but under a mistake of law.

By way of contrast, section 9 of the Interest Act provides that if the borrower pays more, or there is some other breach of the provisions of sections 6 to 8 of the Interest Act, he shall be entitled to recover any excess interest paid by him. Again, both for consistency of treatment and also to attain the undoubted aim of the regulation, the borrower should be entitled to recover any excess interest rate from the bank as from any other type of lender under the Interest Act. This is of relatively small importance, but if you are going to amend this part of the Bank Act, I think you might as well do it thoroughly. As I have said, all of these are provisions fully justifiable under the banking power of section 91, and of course this legislation only affects banking institutions.

Now I turn to the second federal power, that is, in 91 (18), as to promissory notes. As I previously indicated, the problem the consumer faces—and this, with respect, is a very real and substantial problem—is that the consumer frequently signs promissory notes without appreciating how detrimental to his position such notes can be. Interestingly enough, this problem is not new in Canada. It arose at the turn of the century, when people across the country were buying patents from persons who claimed to be their owners. They would then persuade the purchasers, generally business people, to give promissory notes, which were negotiated. At this stage, the buyers of these patent rights frequently found that the patent rights were fraudulent and that the so-called owners did not own the claims. The buyer therefore felt he should not have to pay. However, since the note had been negotiated, the endorsee of the note claimed on the ground of being a holder in due course. This was a real problem, and Parliament adopted certain sections in the Bills of Exchange Act, namely, sections 14 to 16, to deal with it. These sections provide, first of all, that if a promissory note is given in respect of the purchase price of a patent, you must put a statement on it to that effect, and that if this is not done, the note is entirely void except in the hands of a holder in due course; secondly, if the note reaches a holder in due course with this statement on it, he takes the note subject to all equities or defences which the promisor or payor might have raised against the promisee.

I would respectfully submit that similar provisions should be adopted with respect to promissory notes which are given in consumer credit transactions.

If the promissory note carries a statement that the note has been given in respect of a consumer credit transaction, and that any holder in due course shall take it subject to all equities the consumer should receive all the protection he needs. I have no doubt whatever that this protection is most urgently needed. It is true to say that every year there are at least two or three reported cases where this problem comes up. That brings me to the third head of federal power, namely, the interest power, under section 91 (19). Let me say, first of all, that I warmly endorse the principle of a disclosure law, such as the bill repeatedly sponsored by Senator Croll in Canada, that of Senator Douglas of the United States, and others at various provincial levels.

Secondly, I would respectfully support the recommendation of the Royal Commission on Banking and Finance that the Small Loans Act should be increased to cover loans up to \$5,000.

In addition, I respectfully recommend that the maximum rates on other forms of consumer credit transactions, up to \$5,000, should also be regulated.

Perhaps I should explain my reasons for the third suggestion, since it seems to be slightly novel. Firstly, I would submit that it is not logical to regulate the rates on consumer loans and not to regulate the rates on other forms of consumer credit transactions. After all, a consumer may go to the bank and borrow the money and pay cash, or alternatively buy his car on

conditional sales terms; but in each case he is getting an identical amount of credit. It is only the form that is different, but the substance is identical. If he borrows the money indirectly under a time sales agreement, he should also be protected by some type of regulation. That is my first reason for supporting rate regulation to cover all forms of credit transactions.

My next reason is that consumers differ widely in education and sophistication. Many consumers would be helped by a disclosure law, but not necessarily all. Some recent studies were made in New York and it was discovered that the underprivileged classes in New York are charged more for the cash price of goods and for goods bought on credit than other consumers in New York City. The reason for this is that certain types of consumers in our society are not "comparison" shoppers and do not go around from shop to shop or company to company to try to ascertain where they can get the cheapest form of goods or credit. It seems to me that these people will still have to be protected, and that this protection should be by rate regulations with respect to those types of credit not already covered by the existing legislation.

I would now like to deal with some of the legal difficulties about the federal power in the field of interest. It seems to me there are two major difficulties. The first is as to what types of finance charges are included in the term "interest". Until the recent decision of the Supreme Court in the Unconscionable Transactions Relief Act case it was generally believed that interest, both in the legal sense and in the economic sense, was a comprehensive term, and when applied to loans, or forbearance to sue on a debt, covered every type of charge.

A typical judicial definition given by the Privy Council, I think, in 1947, was that "interest" means the cost of a loan. It would seem, however, in the light of the Supreme Court decision in the *Barfried* case, this is not the case.

I have had an opportunity, Mr. Chairman, to read Mr. MacGregor's comments before this committee on the *Barfried* case. If I may, I should like to endorse every word of what he said. I have as much difficulty as he has in trying to understand the decision and even more in trying to reconcile it with the earlier decisions. However, what I feel about the decision is neither here nor there. In fact, it may be a little presumptuous on my part to criticize the decision of the court, though I hope there will be an early opportunity for the Supreme Court to review its decision, perhaps in a different context. I may perhaps remind the committee the decision was only that of a court of seven.

One respect in which I do differ from Mr. MacGregor is in the practical consequences that he spells out of the decision. If I remember rightly, what he appears to suggest is that since the Supreme Court has now said a bonus payment is not equivalent to interest for the purposes of defining "interest" under the B.N.A. Act, therefore the federal Government would automatically be excluded from trying to deal with bonus elements or similar charges in loan agreements.

I do not think this conclusion follows at all. It is a well established principle of constitutional law that if one of the organs of government has legislative power with respect to a given item, it has also certain incidental powers. Or, to put it differently: if you can show the matter covered is only incidental to another matter over which the organ of government does have admitted jurisdiction, then the incidental coverage is also valid.

It seems to me this is the basis, upon which the Small Loans Act was justified when it was first adopted in 1939, and could still perhaps be justified: namely, since the federal Government has admitted jurisdiction over the so-called interest element in loans,—whatever the term "interest" means in this context,—it has also incidental jurisdiction to cover other charges so as to prevent evasion of the regulation of the interest element.

So, as I say, it does not seem to me to follow that the *Barfried* case throws any doubt on the validity of the Small Loans Act or similar types of federal legislation that might be adopted in the future.

However, there is another difficulty involving the definition of "interest" which Mr. MacGregor did not deal with, and that was not dealt with in the *Barfried* case. This difficulty involves the so-called "time-price" doctrine. Interest, as I have already mentioned, is defined by economists as the price or consideration for a loan. The argument that was first advanced in the last century, and which is still advanced in the United States, is that when a consumer buys goods on time he is not getting the benefit of a loan or forbearance to sue on a debt from the retailer. The argument is made that he has two options: one, to pay cash; and, the other one, to pay a higher price for the privilege of purchasing the goods on credit. Therefore, it is said, he is not receiving a loan nor the benefit of forbearance to sue on a loan, and, therefore, the time-price differential is not interest in the legal sense. This is the time-price doctrine. It has come frequently before the courts in the United States, and also in the United Kingdom in the last century. That doctrine has been upheld on this highly technical basis. It seems to me, with respect, however, that the doctrine is certainly contrary to the economist's understanding of "interest". The economist would say, without hesitation, that the time-price differential in a time-sale agreement is as much interest as the price the borrower has to pay when he is borrowing money. But this problem has not yet come before the Supreme Court of Canada or, indeed, in any substantial form before any court in Canada. Nevertheless, it has to be borne in mind in considering the scope of the federal jurisdiction. For example, if the federal Government wished to attempt to regulate all types of consumer credit transactions as to rates, they would have to consider the applicability of this time-price doctrine to the federal power with respect to interest.

The next head of power the federal Government has is under section 91(21) with respect to bankruptcy. I must confess I have not given any extensive thought to this problem. My remarks, therefore, are of a somewhat tentative character. I would, however, respectfully support the thinking that underlies legislation such as that which Alberta attempted to adopt a few years ago—namely, to provide the consumer in financial difficulties with a cheap and expeditious way in which he can consolidate his debts and pay his creditors off at an authorized rate.

The problem that the consumer encounters at the present time is two-fold: first, although existing provincial legislation does empower a judge, once a judgment has been signed against a debtor, to allow the debtor to pay off his debt in such an amount as the court may determine. It does not empower a judge to take together all the debts of a person in difficulties and then have payments pro-rated among all the creditors. Alberta attempted to adopt such legislation a few years ago, and it was held to be *ultra vires* its powers. Therefore, it seems the federal Government has the only effective power in this field.

I would respectfully submit the power should be exercised principally by simplifying the procedure under the Bankruptcy Act where the bankruptcy is that of a private person. The American Bankruptcy Act does have special provisions relating to what they call personal bankruptcies, and these are extremely widely used. I saw some figures in *Time* magazine a few weeks ago which pointed out that in 1962 there were several hundred thousand personal bankruptcies in the United States, all of which came within this particular provision of the American Bankruptcy Act.

Finally, I come to the criminal law power under section 91(27) of the B.N.A. Act. This power conceivably could be used to justify some or all of the following types of legislation. First of all, it could perhaps—and I am not

being dogmatic—justify a disclosure type of law, assuming that type of law could not be based upon the “interest” power of the federal Government. It could, I think, also probably or possibly justify the prohibition of excessive finance charges. It could also be used as a basis for justifying the prohibition of undesirable clauses in agreements, such as the kinds of clauses I mentioned earlier, and also perhaps prevent such occasional practices as requiring the consumer to give an assignment of wages.

Whether the criminal law power could be used in each of these cases would vary, of course, and perhaps I might offer some general comments on the difficulties that may be encountered in using the criminal law power in the consumer credit field. It seems to me that there are two main difficulties. One is that while the criminal law power is extremely wide—it is not restricted as the Privy Council has pointed out on at least two major occasions, to acts that are inherently criminal, or which were considered inherently criminal in 1867—the prohibition in question must be a genuine prohibition and not disguised regulation.

Secondly, if I read correctly the decision of the Supreme Court in the *Margarine Reference* case, the court would seem to have implied that the criminal law power, to this extent at any rate, must be used to strike down an existing evil and not for some ulterior purpose.

Now, applying both of these qualifications to some of the things I suggested might be brought within the criminal law power, it could conceivably be argued—and again I am merely trying to state both sides of the case—that the disclosure law does not come within the criminal law because it is aimed not so much at an existing evil as at trying to ensure that the consumer receives an adequate amount of information. It could be argued that this falls primarily within the area of the civil law. But it could also be argued that a disclosure law deals with deceptive types of practices and is therefore more analogous to legislation dealing with frauds and quasi-fraud. The regulation of finance charges seems to me to have something in common with legislation affecting the sale of adulterated foodstuffs and could therefore perhaps be justified by analogy to those types of cases.

Presumably there would be not much difficulty about prohibiting outright certain types of unconscionable clauses, providing the prohibition was outright and did not purport to regulate as well as to prohibit.

Mr. Chairman, I am afraid I have talked somewhat at length, but that is my presentation.

Co-Chairman Mr. GREENE: Thank you very much, Professor Ziegel. Do the members of the committee wish to ask any questions of Professor Ziegel, or should our counsel go through his brief with him?

Mr. OTTO: The length of your brief may require you to be here some time, Professor Ziegel. Did you get a long leave of absence?

In your remarks you stated that there was a difference between practice and theory in regard to all these problems of consumer credit. I take it that you are arguing the theoretical side, although you also said that some businesses, and especially the finance business, is forced to follow suit. By that I take it you mean there is always a flow in, say unhampered competition from the higher ethics to the lower ethics. It is very seldom that competition in itself goes from the lower level to the higher level. You also said that you had spoken to the professor of economics at the University of Toronto. Did you ever, in compiling this brief, stand beside a used car salesman all day and watch him operate?

Professor ZIEGEL: Do you want me to comment at this stage upon your various observations?

Mr. OTTO: The only observation I have to make is that you have said there was a difference between practice and theory.

Professor ZIEGEL: I would like to correct you there, if I may. With respect, I did not go that far. What I said was that there are some areas in which the existing practice is already sound and fair in the majority of cases, but where nevertheless it was desirable to have legislation in order to confirm the existing practice. I referred to the case of rebates by pointing out that the majority of finance companies already give the consumer a rebate, and I said that this practice and the right should be confirmed by statute.

However, the fact that sound practices already exist does not necessarily mean that every finance company or credit outlet is that considerate. I recall a case from practice some years ago when an ordinary person came into our office—this was in Vancouver—and said that he had bought a car on time a few days earlier. He said that he had told the car dealer at the time that he thought he could borrow the money from the bank and wanted, therefore, to have the right of paying out the agreement at any time, and probably within the next few days. He said that the dealer had agreed to this. In any event, our client was able to get a loan from the bank, and when I telephoned the finance company to which the agreement had been assigned in the meantime, and explained the position to them and said that our client wanted to pay off the amount outstanding, they said: "Well, it is not in his interest to do so because he will still have to pay the full amount of the finance charge".

There you have a case of a finance company that was not acting equitably, and not following the practice of the major finance companies.

It must be borne in mind that in Canada there are about 160 finance companies. It is true that most of the business is in the hands of the major finance companies, but unfortunately all too often it is the person who is least educated and least sophisticated who falls into the hands of the less scrupulous finance companies. It is for this reason that, although the practice of the large finance companies may be fair and reasonable, you still have to protect the consumer against the behaviour of the less reputable elements of the industry.

Mr. OTTO: In that particular case what obviously happened was that the salesman who was selling the car persuaded the buyer to sign everything, including the note, even though in the mind of the buyer he thought he was going to be able to arrange his loan elsewhere. This is where the trouble arises. He had signed the note and the paper had been transferred to the finance company. The finance company said to themselves, or to you: "Well, we bought without notice. In fact, if we did not buy it then somebody else would. Although we are a reputable company, if we follow the ethical practice of inquiring and having the salesman make his oath that no such transaction occurred, we would be out of business". I agree with you wholeheartedly, that companies are forced to follow suit in order to stay in business. The practice evolves from the higher level of ethics down to the lower level.

Professor ZIEGEL: May I answer that? I do not agree with you as to the behaviour of this finance company. Perhaps this is where we have a difference of conception of business ethics. I would say that when a finance company stretches the law in favour of the consumer it is improving its reputation. It is not harming it. To take the case I have just cited, I think this particular buyer who had this unfortunate experience with a finance company would think badly of that company, and the chances are that he would think badly of all finance companies. If I were that finance company manager, then regardless of what my legal rights were I would have said: "Let this man pay it off if he wants to, and I will give him an equitable rebate". I venture to say that if that had happened, our client would have said: "Gee, what a nice finance company to deal with. The next time I have occasion to deal with a finance company I will deal with them".

Mr. OTTO: You know the old adage with respect to what happens to nice people in business.

On page 2, at about the middle of the page, you say:

Furthermore, since the advertisement frequently is the magnet which draws the buyer into the shop, a misleading or false advertisement can do much harm.

Further down the page you say:

Sound credit standards are needed because of the fact that excessive zeal by some retailers, and the attractions of being able to obtain immediate use of desirable goods with only a small down payment, may tempt buyers of modest means to over-extend their financial resources.

Indeed then, what we are really concerned with primarily are these people who find themselves sold a bill of goods beyond their ability to pay. Is this committee also concerned—I take it that those people who know what they are paying, and who wish to pay 25 per cent and who can do so without any trouble, are not our concern—with that element who find themselves in difficulty? I agree with you that promotion is used. There are misleading advertisements. But, would you agree that the promotional advertising put on by finance companies and retailers is not discriminatory advertising? Would you also agree that the promotional advertising put out by business companies, retailers, is not discriminatory advertising? They do not say, for instance, that if your salary is \$9,000 you can come in and buy a colour television set: they try to put forward the picture that unless you buy a colour television set you are just nothing.

Now we come to next thing. They use promotional advertising to sell the goods or to extend credit. Would you agree that they do not use the same promotional advertising to collect the money? What they really use is a threat of action in court. Would you agree this is the case?

Professor ZIEGEL: Yes.

Mr. OTTO: I am wondering therefore whether we should also be concerned with a further problem. You had mentioned only disclosure, interest, equity redemption, down payment, negotiable instruments. Should we be concerned also about the whole concept of collection, courts, the law of collections?

Professor ZIEGEL: I think that depends entirely on what view you take of your constitutional position. It seems to me that the federal Government may not have jurisdiction in most areas of debt collections, save where it comes under the Bankruptcy Act. Therefore, in specific answer to your question, I would say that the committee would have to decide the constitutional position before it could decide whether it should take cognizance of collection problems. If your question is a wider one and is whether, in reviewing the whole spectrum of consumer problems, a government with plenary powers should consider them as one item, the answer is most definitely yes. This is why an increasing number of the provinces have adopted legislation concerning deficiency payments and other payments which may be claimed once the goods have been repossessed.

Mr. OTTO: I am getting at this point and I think you will agree with me, professor, that our law of negotiable instruments, our law of credit, was really the common law of collection, the extension of credit, bills and notes, and was formulated at a time when consumer credit did not really exist.

Professor ZIEGEL: I agree entirely.

Mr. OTTO: Therefore what we are trying to do is adjust the situation at the present time which has arisen, say, over the past 50 years, and trying to adjust it to a law and regulations made under a law which did not anticipate this.

Professor ZIEGEL: I agree entirely.

Mr. OTTO: You had mentioned financing as a service business and of course our previous witnesses had also said that the extension of credit is a service business but from the views given by yourself in this brief and by others I am wondering whether this is no longer a service for the sale of goods, whether it really has not almost become a business in itself, the business of the extension of credit, and consequently the desire by the people involved to protect this business where they now think that they have rights. Would you say that our economy now has turned to the point where this is a separate business or can we still consider it as part of the retail sales?

Professor ZIEGEL: No. I agree with your first point. I think consumer credit is a major industry of its own. It was estimated a few years ago by the then president of the Canadian Retail Automobile Dealers' Association, or whatever the correct name is, that up to one half of the income of their members came from the dealer's reserve on the finance charge in the sale of cars. So you can see the credit element in sales is at least one major segment of the consumer industry.

I have frequently heard it said that an increasing number of retailers find they are making more money out of their credit charges than they are out of their cash sales. Whether this is correct or not I cannot say, as I have not seen the statistics. But I agree entirely with you that consumer credit has become a major industry of its own, standing on its own feet, separate and apart from the sales which underly it.

Mr. OTTO: The reason I ask is because in my private practice I have had occasion to act for vendors of say a used car lot and the purchaser of that used car lot was not concerned about the quality of the goods in the lot. All he knew was that there were 30 cars there and out of the 30 cars he could make \$30,000 a year on finance charges, repossession procedure and he was not concerned at all about the cars. I am wondering whether we have reached the stage where a great number of retailers are less concerned about the quality and sale of the goods and more concerned about the financing business. Would you say a good number of the retail trade is now at least 10 per cent or 15 per cent dependent on finance charges?

Professor ZIEGEL: I am afraid I could not indicate any particular percentage.

Co-Chairman Senator CROLL: You were talking about cars and you left that and went to the retail trade. American statistics on cars in the year 1956 indicate that the car people earned more money on financing than they did on the sale of cars. That is, just cars.

Mr. OTTO: I am wondering about other things—refrigerators, air conditioners, motor boats, motors and so on. I wonder whether you have any statistics?

Professor ZIEGEL: I have seen none. I will say that up until a few years ago dealers received dealer's reserve or commissions only on cars and very rarely on other goods. In the last few years, however, the practice has sprung up of finance companies offering dealer's reserve on other types of goods, but these dealer reserves are still substantially smaller than in the case of cars.

Another point to be borne in mind is that dealer's reserve is not pure profit to him by any means. In the majority of cases the dealer also has to guarantee payment of the debt by the consumer. If the consumer defaults then the goods may be repossessed and returned to the dealer and his account will be debited with the amount outstanding at the time of repossession. So it is only after you take the bad debts from the dealer's reserve that you are left with the net profit to him.

Mr. OTTO: You have said this in your outline, that repossession is an important factor, and apart from cars, I want just to say that in business generally very few are concerned about repossession. They have sold their goods, either with or without recourse, in many cases with partial recourse and partly without, they are willing to take 75 cents on the dollar right across the board and they are not interested in repossession. Since we are going to be dealing with consumer credit in items other than cars, where the problem arises of repossession and equity redemption, I am wondering whether this is such an important factor. I have my doubts.

Professor ZIEGEL: May I make an observation here? I am sorry to be so loquacious. You may be right in saying that the majority is in the case of cars, but I think 75 per cent of all time sale agreements do involve cars, probably more like 80 per cent.

Mr. OTTO: I agree.

Professor ZIEGEL: You may get some idea of the importance of the problem when I tell you that in the United Kingdom alone—in 1962, I think it was—the number of applications made to the county court under section 12 of the British Hire-Purchase Act ran to more than 50,000 in one year and at that time the act was still restricted to sales up to £300 sterling, that is, \$900 and therefore did not include new cars or even late model cars. Therefore, I think the repossession problem is a very real one. It may be true that the dealer and the finance company are not at all keen on repossession, but they may have no option.

Mr. OTTO: I agree, professor, and the reason I ask is that I am wondering whether, regardless of what legislation we recommend in this committee, if we lump retail sales including cars we may be putting together two problems which are entirely separate. That is, in the matter of cars, repossession is a very important element, whereas in most of the other goods repossession is not. So I am wondering whether the legislation that is contemplated should be all inclusive or whether it should be divided in some way.

Professor ZIEGEL: I would answer that it depends. Certain types of problems are common to all types of consumer goods. The disclosure problem is one which is common throughout the whole industry; the rate of charge is one common throughout the whole industry. The problems of repossession arise mainly in the case of time sale agreements where the dealer retains title to the goods; but where he does so, I would submit that the legislation should be uniform and apply to all goods. In fact, all the existing legislation, with few exceptions, applies to all types of goods. The British Hire-Purchase Act applies to all types of goods. The American Uniform Conditional Sales Act applies to all types of goods.

Article 9 of the Uniform Commercial Code in the United States applies to all types of goods. The New York legislation dealing with time sale agreements applies, so far as its repossession features are concerned to all types of goods. But for other purposes you might wish to discriminate between different types of transactions. For example, revolving charge accounts raise problems of their own, and it may be desirable to have a separate law for them. New York has separate rate regulations for automobiles and for other goods. I think it depends entirely on the particular type of problem.

Co-Chairman Mr. GREENE: I am wondering, since we have not other witnesses, if it would be agreeable if one or two members cared to ask questions.

Mr. MACDONALD: I would like to refer to the bill of exchange act and its power under the constitution. Have you had particular reason to refer

to bills C-44, C-51 and C-63? Firstly, have you had the opportunity to examine them heretofore?

Prof. ZIEGEL: No. The only bill I have seen, I think, was the one Mr. Peters introduced in the House of Commons some years ago. I did not see the original, I saw a reproduction of it.

Mr. MACDONALD: That may be C-51. I wondered if we could impose upon you to examine it—not now, because it would take too long and be unfair to ask you to analyze it or the other bills now. All three bills provide for additions to the bills of exchange act by certain wording which would get around this problem of divorcing the purchase contract from the financial obligation.

Prof. ZIEGEL: I have looked at Bill C-51.

Mr. MACDONALD: That really follows your regulation.

Prof. ZIEGEL: Sections 14 to 16, yes.

Mr. MACDONALD: Firstly, would you consider those from the standpoint of constitutionality. Secondly, would you give your views on them as to the legislative solution of this problem. Thirdly, perhaps in a more particular sense, you could analyze the wording and point out any defects that appear.

My second question is related to Bill C-13, an act to amend the Small Loans Act, to put restrictions on the small loan companies with respect to their advertising. I wondered if you had any constitutional inhibitions about that kind of stipulation in a federal statute as specifically related to small loan companies?

Prof. ZIEGEL: I must confess I have not given this particular aspect any thought. I did have an opportunity some years ago to read Mr. Varcoe's evidence before this committee in 1938, in which he dealt with the constitutional implications. I think it would have to be justified under the so-called incidental power. If you start with the premise that the federal government has jurisdiction over interest on loans, I think you might be able to argue that advertising is an incidental part of charging interest and therefore is within the federal jurisdiction. However, I do not wish to be dogmatic at this point. I can see difficulties.

Mr. MACDONALD: Getting back to the question of bills of exchange, do you know of any decided case where you have this kind of package that the finance companies seem to have, where there is a set of documents, one of which is a promissory note, such as in the case of the sale of an automobile?

Prof. ZIEGEL: This opens up a very interesting aspect of the law in Canada and the United States. In *Killoran v. Monticello Bank*, which was decided around 1923 by the Supreme Court of Canada, the court upheld the status of the finance company, both under the promissory note and under the "cut-off" clause. That decision was followed almost consistently right up to a couple of years ago, when Mr. Justice Kelly handed down a decision in Ontario. He was obviously much influenced by the American decisions, and he held in that case that the finance company was not a holder in due course because it knew too much about the dealer's business. In that case the seller was not a dealer, but a company selling knitting machines to dear old ladies on the doorstep—an example of a house to house selling abuse. The difficulty I see about this decision is that it was difficult to justify on purely legal grounds. It was a case where the judge was very conscious of the social evil and, greatly to his credit, was much concerned about it. But sometimes hard cases make hard law. This may be one of them. In any event, this decision, plus several other recent ones, has thrown the whole law into confusion. Some courts follow the earlier Supreme Court of Canada decision, and others the decision

in the St. Pierre case, and I suppose some decisions do not fall neatly into either category.

Mr. MACDONALD: Therefore, on that ground alone, it might be desirable to have a clarification?

Prof. ZIEGEL: Definitely. May I say that this problem is not at all unique to Canada. The Americans had it for a long time and New York, for example, has special legislation dealing with it. It provides that if the buyer has any complaints with respect to the goods he must advise the finance company within 30 days, otherwise he will lose his right to make the complaint.

Mr. MACDONALD: Dealing with the acceptance business generally, as opposed to the small loans business, do you feel there is scope for a federal control or regime over the acceptance business as a result of the small loans business, from a constitutional standpoint?

Prof. ZIEGEL: From a constitutional standpoint? That depends entirely on whether you can persuade the Supreme Court that the business carried on by a finance company is that of lending, or that it is charging interest for services rendered. This, in turn, would involve a reversal of the time-price doctrine. I would not hazard an opinion on that.

Co-Chairman Mr. GREENE: How do you define "acceptance company?"

Mr. MACDONALD: The type of business where, as in the case of the sale of a motor vehicle, all the documents, including a promissory note and the initial conditional sale contract have been prepared, as by Household Finance, and the dealer is responsible for executing the sale; the documents are then designated by the dealer to the finance company, which in fact prepared the documents; so you have the situation where the party which comes to hold the documents is not the initial one to whom the purchase was contracted. On a more particular aspect of that, you referred to the abuse of rebates on finance charges, and so on. Do you see any difficulties with regard to federal jurisdiction there, or is it the same answer?

Prof. ZIEGEL: No. I think once you establish federal jurisdiction over the right to regulate the rates at all, you will have no difficulty in adding a rebate clause. You already have one in the Small Loans Act.

Mr. URIE: I would like to interject a question which seems to me to be a logical outgrowth of the question Mr. Macdonald asked you. Do you think there is any power in the federal jurisdiction to enlarge the definition of interest, since the term "interest" is "loan" as used in the B.N.A. Act? Do you think legislatively you can define "interest" to encompass all those matters contained in the Small Loans Act?

Prof. ZIEGEL: I must confess that is rather a novel technique. I think the courts will say that it is not for one branch of our federal system to determine the meaning of a word in our constitution; it is a judicial function. I do not in fact think it is necessary. What concerns me about as much as anything is the neglect of the court to enter into an inquiry as to what the word "interest" was intended to mean in 1867 when it was first inserted, and what economists understood by the term at that time.

It seems to me this is the real job that the court would have to assume if it tried to determine definitively what "interest" does mean in section 91(27). As I say, after discussion with economists, it seems to me "interest" is a very wide term. It means no more and no less than the cost or the price of a loan or forbearance to sue.

Mr. URIE: Does it make any difference whether it had a different meaning in 1867 than it does today?

Prof. ZIEGEL: It might. This again involves a difficult constitutional problem, namely, whether a court is entitled to give flexible meaning to terms. It has

been done frequently in the United States. I think it is a technique of interpretation which is still novel in Canada, so I would not like to hazard a guess.

Co-Chairman Mr. GREENE: I think you did say in your opinion that there is a possibility that *Barfried* could be distinguished on the grounds that the federal powers had not legislated in that necessarily incidental area, and if they had a different view might be taken. Am I correct, or have I gone too far in interpreting what you said?

Prof. ZIEGEL: No, I think the way the argument would proceed would be as follows, that you would argue the federal Government has admitted powers over interest. Then you would say those powers enabling them to deal with bonuses and other charges are merely incidental, with a view to making effective that part of the act which deals with interest proper. They used this method in the *Barfried* case itself because one of the grounds of decision of the court was that the real objective of the Ontario legislation is the enlargement of the equitable jurisdiction over unfair contracts. The court held that the regulation of interest was only incidental to this major purpose of the act. If you can use that technique in order to justify provincial power in this area, it seems to me, *a fortiori*, you could justify the use of a similar technique in the federal field.

Mr. MACDONALD: You made a reference in your brief that credit life insurance sales are not regulated by the Small Loans Act.

Prof. ZIEGEL: I do not think I did, but they are not.

Mr. MACDONALD: What would you recommend in that respect?

Prof. ZIEGEL: Mr. MacGregor gave evidence before this committee to the effect that the gentleman's agreement worked out between his department and the small loans companies works satisfactorily. I do not believe in legislation for legislation's sake. I think you should only adopt legislation in circumstances where you really require it.

Co-Chairman Mr. GREENE: Are you aware there are such techniques as interlocking directorships between the finance companies—

Mr. MACDONALD: Even stronger than that!

Co-Chairman Mr. GREENE: Similar ownership?

Prof. ZIEGEL: I am basing myself on Mr. MacGregor's evidence on this point, because I cannot begin to compare with his knowledge of this. But, generally, I think if you are going to regulate charges you should also regulate sales of life insurance. There have been many reported abuses in the States, and the Association of Superintendents of Insurance have drafted a model life insurance credit act. I had occasion some years ago to query the matter with the then President of the Canadian Association of Superintendents of Insurance, and he wrote and told me that there were no reported complaints to his department about abuses in this field. It may be the abuses are still in the offing, but let us hope they do not come up here.

Mr. MACDONALD: Referring to page 13 of your brief, you are discussing there the Quebec statute. I will read you the sentence:

A maximum finance charge of three-quarters of one per cent only for each month of the duration of the agreement is permitted.

Do you think there is any trespassing on the federal jurisdiction by that stipulation in the Quebec law? Have there been any cases on it?

Prof. ZIEGEL: No, no cases I know of. Bear in mind, however, this raises the problem of the time-sale doctrine, because the Quebec act only deals with conditional sale agreements. It does not deal with loans. Assuming, however,

that the finance charge in a time-sale agreement is interest, then I think a constitutional problem does definitely arise.

Mr. MACDONALD: And a final question: so far as you know, does the new draft Ontario personal property law deal with any of these questions of consumer protection?

Prof. ZIEGEL: With one only, and that only marginally. Part V of the draft act, which deals with foreclosure and redemption, is copied from Part V of the Uniform Commercial Code of the United States. That is taken, in turn, from the Uniform Conditional Sales Act largely. It offers a minimum amount of protection, but I do not think it goes far enough to satisfy consumers. I think it goes far enough to satisfy the purchaser on time who is not a consumer, but I think for the protection of the consumer he needs something more.

Co-Chairman Mr. GREENE: What do you mean, "the purchaser of time who is not a consumer"?

Prof. ZIEGEL: You might for example, be a small businessman buying a cash register.

Co-Chairman Mr. GREENE: Senator, did you have a question to ask?

Senator Irvine: No, what I wanted to say was how very much I have enjoyed your talk today. Just being a layman, and not being a lawyer and not being interested in car sales, I am going to say one thing, that I think the crux of the situation, as far as I am personally concerned, is that the consumer is not rate conscious.

Mr. OTTO: Mr. Chairman, that is what I am trying to get at.

Professor Ziegel, to go over this problem of the provincial and federal rights, do you think that in 1867 there was such a thing as consumer credit, or could it have been contemplated?

Professor ZIEGEL: No, it was not a viable problem in those days, though time sales have been known in Canada since 1850 onwards. The Singer Sewing Machine Company began its conditional sales, I believe, as early as 1860. Many of the early cases concerned the time-sale of horses, the equivalent of our modern car. So I think the problem was beginning to appear, but it was no more than that.

Mr. OTTO: In your brief—

Professor ZIEGEL: May I add something more?

Mr. OTTO: Yes.

Professor ZIEGEL: The time-price doctrine, however, had already been enunciated by then, and therefore it should have been known to the draftsmen of the act, because some of the basic American and English decisions were handed down in the first half of the 19th century.

Mr. OTTO: In your brief you mentioned amendments needed in terms of the agreement—that is, the note signed. Naturally, if restrictions were put on the conditional sales contracts, and so on, there would be a tendency to send the purchaser across the street or to another booth and say, "Borrow money over there on a straight note basis." Would it be possible in this legislation to cover indirect sales of conditional sales or consumer credit, or would that interfere with other phases of business which might not have anything to do with this particular problem here?

Professor ZIEGEL: No, I do not think so. This problem has occurred to me before and has been dealt with in the English and Australian legislation. In England they have a rather strange set-up. You go to the dealer and select the goods of your choice, but the actual agreement is between the finance company and the purchaser, and not between the dealer and the buyer. This is done for highly technical reasons which I need not go into here. The same thing has

happened in Australia and most other parts of the Commonwealth. The problem arose in England that the dealer might make representations which were not true. Then when the buyer went to the finance company the finance company said, "The dealer is not our agent, so your sole recourse is against the dealer, and it's nothing to do with us." This problem reached such proportions in England and Australia that they have special provisions dealing with this problem. They provide expressly that for the purposes of such questions the dealer shall be deemed to be the agent of the finance company.

Mr. OTTO: In other words, they would have to be included in any legislation we adopt?

Professor ZIEGEL: Perhaps it may be a little premature to worry about the problem because I think the number of instances in which the dealer will have such a close tie-up with a company may not arise too often. In any event, the courts may hold, as they have already done so in some cases, that for legal purposes the dealer and the finance company are in fact one.

Mr. OTTO: I have just one more question. Assuming that these recommendations of yours and others for the amendment of the present legislation are adopted do you think they would provide a cure for all the ills of consumer credit, and of those people who you have admitted are not comparison shoppers and thus the ones who cause the greatest worry to us? Do you think that if changes are made in the law with respect to disclosure, repossession and all the other elements, the problem will be solved, or will those amendments solve only the problem of those who really have no problem, and here I am referring to the people who are comparison shoppers, who know how much money they have and who do not spend more than they should? This is what I should like to hear from you.

Professor ZIEGEL: It depends very much on the type of legislation you adopt, but I would think that well-drafted and well-considered legislation can go a substantial way towards solving the problems of some of these people.

Let me take Saskatchewan as an example. Saskatchewan has perhaps the strictest legislation of any part of Canada, and perhaps of any part of this continent. Alberta also has pretty tough legislation. One of the results is that you do not find dealers in Saskatchewan falling over themselves trying to sell goods to people who in their opinion are not creditworthy in the first place. They exercise more care because they know that if they do not they cannot recover any part of the price. Likewise, if you adopt realistic but reasonable regulations concerning rates the dealer will realize it is not worth his while to try to sell a car to a man whose earnings he knows do not justify his buying that particular car. He knows that he cannot recover the price even in the form of higher finance charges.

Mr. OTTO: Professor, I think we should end it here. I think you have given what I have been trying to find out on page 14 of your brief where you say that the strength of the Saskatchewan legislation is in the fact that the seller's or the finance company's right to sue is challenged, and that knowing that they are more discriminatory in their choice of buyers. So, in reality disclosure of interest rate is not, in the case of Saskatchewan, the reason why finance companies are a little more cautious. It is because of the fact that there is an attempt to set the collection mechanism or, in other words, the right to sue which is more effective in controlling the granting of consumer credit.

Professor ZIEGEL: Yes, that would be true so far as that particular province is concerned.

Co-Chairman Mr. GREENE: Mr. Urie?

Mr. URIE: I have very few questions left, Mr. Chairman.

On page 39 of your brief, Professor Ziegel, you give what I consider to be two very significant points. You say:

The large retail stores, such as the T. Eaton Company and the Hudson's Bay Company, apply a uniform rate of charge, regardless of the amount outstanding at any time. They obviously create no problem. Other stores, on the other hand, state their carrying charges in dollars and cents and the charge does not bear a constant ratio to the amount outstanding.

I think that this difference in technique has caused great confusion in the minds of the members of this committee with respect to evidence that has been given before today. You state further:

This method does create a problem for the legislature.

Do you recommend that a compulsory flat rate be adopted rather than the variable amount of repayment in accordance with the size of the credit financed?

Professor ZIEGEL: No, I do not. If the retailers want to go to the trouble of working out the equivalent percentages of their different charges then let them go ahead and do so, but I think the indirect result of forcing them to disclose may be to persuade them that it would be simpler for them to have a uniform rate of charge.

Mr. URIE: Do you feel in point of fact that the second method suggested—the variable rate—could be worked out if the retailer wants to make use of that system?

Professor ZIEGEL: Oh, yes, quite easily.

Mr. URIE: In other words, they have tables now for dollar amounts, and it seem to me that they could easily have tables for percentage amounts in the same way. Is that your view?

Professor ZIEGEL: Yes. Mind you, they would have to change their accounting system very considerably. What happens at the moment, presumably, is that the girl looks at the amount outstanding at the beginning of the preceding month and then looks down her column and against that amount sees a finance charge—say, of \$2 and then adds on the amount to the account. If they have to start converting some of the those charges to percentages they might get some very peculiar figures—figures like 14.36 per cent—which look rather eccentric on paper. I think that they would certainly have to give it some consideration.

Mr. URIE: In connection with that type of question you know, of course, of the report of the Royal Commission on Banking and Finance in which it was suggested that certain loans of under \$50 might be exempted, and that there might be a flat rate charged on such loans or credit advancements. Have you any comment in respect of that suggestion?

Professor ZIEGEL: I have no objection to the exemption of such very small sums from the disclosure rule.

Mr. URIE: Do you think it would be advisable to get rid of some of the objections that are presently being brought before this committee?

Professor ZIEGEL: Let me put it differently. Is it necessary? If you premise that once a disclosure law is adopted most retailers are going to switch over to a uniform rate per month, then that uniform rate is likely to be something like $1\frac{1}{2}$ per cent per month, such as the T. Eaton Company now charges. In that case you would not need exemptions for any amounts. You could possibly provide—as is done, I believe, in some of the American acts that regulate charges on revolving accounts—that there be a minimum charge of \$1 on each

account. In other words, you could have an act providing that the agreement shall state the rate per month or per year and the minimum charge, where a minimum charge is permitted by the legislature.

Mr. URIE: Do you suggest the elimination of dealer reserves, or simply the disclosure of the amount of dealer reserves along with other finance expenses?

Professor ZIEGEL: Neither, really. This problem has been much discussed in England and Australia and also in the United States. In the Australian act the dealers' reserves are outlawed except in one case, namely, where the dealer signs a recourse agreement. In that case the commission may not exceed 10 per cent of the finance charge. Several states of the United States, including Wisconsin and Ohio, tried to deal with this matter by legislation, and they have run into a great deal of trouble on constitutional grounds. I am not sure of the status of this legislation at the present time. I would say, however, that if you regulate the rates then that should take care of the reserve problem by itself, because there will not be a sufficiently high margin of profit for the finance company to allow the dealer a substantial reserve, unless the finance company is willing to forego part of its own profit.

Mr. URIE: Do you think it should be disclosed?

Professor ZIEGEL: No, I think the technical problem would be insuperable. Besides, it could be concealed in other forms. Finance companies could make low cost wholesale loans to the dealers, for example.

Mr. URIE: I have one more question. You seem to have expressed some admiration for the Australian legislation. Do you consider it to be a model act for problems of this nature?

Professor ZIEGEL: For many of them, yes. Mind you, there are many similarities now between the British legislation and the Australian legislation.

Mr. OTTO: I have one more question, Mr. Chairman. I wish Professor Ziegel had been here before we heard from the chamber of commerce, because so far everyone has pointed out a difference between the service charge and the rate of interest. I take it from what you say that interest has always included a charge for usury and a charge for service?

Professor ZIEGEL: Yes, sir. I qualify the word "always", because that would take us back into the dim mists of antiquity. From the time that economists have studied this subject seriously, which is not that long a time, they have always regarded interest as the cost to the person who gets the money, and not in terms of the net return to the lender.

Mr. OTTO: In other words, like mortgage interest on a property, the interest includes the cost of usury and the cost of the service, and therefore this committee should not really be concerned about differences—

Mr. MACDONALD: It is not the lender's costs; it is the borrower's.

Mr. OTTO: This is what has been bothering me. I was under the impression that they were two separate items. I was not aware that they were really one and the same thing.

Co-Chairman Mr. GREENE: Is there any evidence in these jurisdictions, Australia and the United Kingdom, which obviously have tougher legislation than we do, that it has in any way materially impeded credit so as to retard the economy?

Professor ZIEGEL: No sir, not so far as I am aware. I think the British experience speaks for itself. Consumer credit there has doubled itself in the last five years. I think the same is true of Australia. This is not to say that I think you should go on turning out legislation ad infinitum or that

any type of legislation would do. I think legislation should always be carefully considered and carefully drafted and I think it should try to be fair to both sides; but I would respectfully emphasize that the businessman with integrity should have nothing whatever to fear from any of the legislation that I have discussed today.

Mr. URIE: Why are corporations excluded in the English legislation?

Professor ZIEGEL: Because they had difficulties in defining their limits. Some of the American acts define limits in terms of consumer sales and other sales, but the draftsmen of the British Hire-Purchase Act 1954 felt that this distinction could turn out to be very difficult in practice. Suppose a doctor buys a car, is he buying it for personal use or for his practice? Clearly he was going to use it for both purposes. It was in order to avoid such difficulties of application in practice that they preferred a simple monetary test. However, since you can always predicate with certainty that when a corporation buys goods it is always for business purposes, they had no hesitation in excluding them.

Mr. URIE: I see.

Co-Chairman Mr. GREENE: There is one other thing I should like to ask you, professor. I do not think you envisaged that it would be practicable with respect to revolving accounts and that type of credit to state interest charges in simple annual terms. Was I correct in stating your view?

Professor ZIEGEL: Yes.

Co-Chairman Mr. GREENE: Is there any appreciable danger of confusion if in one area it is permitted to state interest in monthly terms whereas in another area we are going to legislate for annual terms? Will this lead to an imperfect solution of the problem of disclosure?

Professor ZIEGEL: I do not think so. I think the amounts usually involved in revolving credit are much smaller than those involved in the case of time sale agreements. I think the consumer will be able to compare the carrying charges of one retail outlet with another, and this is really what we are trying to accomplish. The consumer does not usually confuse revolving credit with time sale credit. He uses the revolving credit account for small purchases, usually perishable goods, purchasing usually a few dollars at a time. Purchases of major items usually fall into an entirely different category, both in his own mind and from the dealer's point of view. Buying a car is a completely different purchase from that of buying a pair of nylon stockings or a tube of toothpaste for the family or a few yards of cloth to make a curtain.

Co-Chairman Mr. GREENE: So we should not be chary of setting a double standard in this question?

Professor ZIEGEL: No, we are dealing with a complicated industry and we have to appreciate and take cognizance of this fact.

Mr. URIE: Did I understand you to say that we might have to provide for a monthly basis in the case of revolving credit whereas it might need to be an annual basis in the case of other credits?

Professor ZIEGEL: Yes.

Co-Chairman Mr. GREENE: I would like to thank you, professor, and to re-echo Senator Irvine's own words, that your contribution has been an extremely valuable one. If I may be permitted an obiter, I may say that the comprehensive nature of your brief indicates the valuable contribution that can be made from the academic area to legislation. As a very new member, I think one of the difficulties all of us find here is that we have not the time and probably most of us have not the ability to do research in depth in the various legislative problems that come before us. There is a very wide

area in this country for a larger contribution by the academics in this question of research, working with the legislative people who can make use of this comprehensive research. Your contribution here today is a very fine example of that premise.

The committee adjourned.

APPENDIX "G"

The Special Joint Committee of the Senate and House of Commons on
Consumer Credit

A BRIEF

Submitted by

JACOB S. ZIEGEL,

Associate Professor of Law, University of Saskatchewan

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Mr. Chairman and Honourable Members of the Committee:

I feel privileged to have been invited to appear before you today, and I hope that my remarks may be of some assistance to you. In view of my background, I felt that I could best be of assistance to the Committee by presenting a short historical and comparative survey of the retail instalment sales legislation which has been adopted in the other Provinces of Canada and in several non-Canadian common law jurisdictions with a high volume of consumer credit. For this purpose I have selected the United States, the United Kingdom (more specifically, England, since Northern Ireland and the Isle of Man have their own legislation) and Australia. Time does not permit me to offer a detailed analysis of the legislative provisions to which I shall refer, but I shall be only too happy to answer questions and to enlarge upon any point raised in my survey. I have made an exception in the case of the disclosure problem, and my comments on this topical subject appear in the form of an addendum to the survey. The reason for the exception is that I know the Committee has been much exercised over the problem and has received many briefs opposing a compulsory "truth in lending" law. I believe these criticisms can be answered, and in my Addendum I have tried to do just that.

Before I start my survey, a sketch of the material problems which a legislature may have to face may be helpful. These problems may be grouped under six heads: (i) frank and full disclosures in the written contract of the financial term of the agreement and elimination of false and deceptive advertisements; (ii) maintenance of sound credit standards; (iii) regulation of finance charges, including refinancing and delinquency charges; (iv) exclusion of unfair clauses from the agreement; (v) protection of the buyer's equity in the goods in case of repossession by the seller; and (vi) provisions for enforcing the Act.

Disclosure is necessary so that the buyer may appreciate the financial commitments he is undertaking and know the difference between the cash price and the time price of the goods he is acquiring. A further object is to instruct him in the components of the time price, especially where, as in the case of an automobile purchase, it frequently includes, apart from the unpaid balance of the cash price and the finance charge, items such as registration charges, property damage insurance, and, increasingly, credit life insurance. Furthermore, since the advertisement frequently is the magnet which draws the buyer into the shop, a misleading or false advertisement can do much harm. Hence, for maximum effectiveness, the regulation of such advertisements should also be brought within the disclosure net.

Sound credit standards are needed because of the fact that excessive zeal by some retailers, and the attractions of being able to obtain immediate use of desirable goods with only a small down payment, may tempt buyers of modest means to over-extend their financial resources. The social consequences in such cases can be very grave. Theoretically the financing agency's policy may be to insist on a down payment and on the payment of subsequent instalments sufficiently high to ensure that the value of the goods will, during the lifetime of the contract, exceed the unpaid balance of the time price, but competitive pressures may compel the financier to relax such sound credit standards. Moreover, the practice of traders granting over-generous trade-in allowances may substantially dilute the value of any downpayment. For all these reasons a responsible legislature will have to consider whether the regulation of minimum downpayments and maximum maturity rates may not be necessary in the public interest.

Turning to finance charges, it is widely conceded that the average consumer is not rate conscious and that his principal interest is in the size of the downpayment and monthly instalments he will have to meet. Two consequences flow from these facts. First, there is very little rate competition among finance companies, and, secondly, some finance charges, especially in the field of used vehicles, are unconscionably high. The problem is accentuated by the practice of some car dealers "packing" their charges. There are two ways of coping with the problem, which preferably should be used together. The first is to regulate by law the maximum permissible charges, as is already done, for example, in the case of small loans. The other is to require every contract to state the finance charge both in money terms and as an effective rate of interest, so that the buyer may readily be able to compare the rates of different financial institutions. If the first method is used, some consideration will also have to be given to the question of regulating the commissions paid by finance companies to dealers, since these now comprise a very substantial part of the total finance charge in the case of automobile sales. Related to the question of finance charges is the right of the buyer to a proportionate rebate of the charge where he prepays or, in the case of an acceleration clause, is forced to prepay the whole or part of the unpaid balance of the contract price. At common law he has no such right. The same problem arises if, as happens frequently, the contract is refinanced during its lifetime.

The interests of the consumer and the finance company are violently at odds over exclusionary or so called disclaimer clauses. The company, which regards itself for this purpose as essentially in the position of a lender of the purchase price of the goods, feels that it is entitled to be isolated from disputes between the buyer and the seller. To this end a triple-barrelled weapon is frequently used against the consumer. First, the agreement excludes all warranties and conditions. Secondly, the buyer is made to agree that any assignee of the agreement shall take it free of all defences. Finally, a promissory note, with the implications of a holder in due course status for any *bona fide* endorsee,

usually accompanies the agreement. The consumer's interest, on the other hand, is not to be compelled to pay for goods which are faulty, or have been misrepresented, or perhaps have never even been delivered to him. Whilst the common law, in some instances, has been able to save some of the rights which the buyer has thus unwittingly signed away, the protection is far from adequate or complete; consequently, once again, the legislature must intervene. The importance of this problem cannot be overemphasized.

Protection of the buyer's equity when the seller repossesses the goods, is historically, the oldest problem and the one which has received the earliest statutory attention. Repossessions (including the voluntary return of goods) may represent as much as 10 per cent of the total number of contracts liquidated per annum in the case of used vehicles, and as much as 5-6 per cent in the case of new vehicles. That the buyer in default should not summarily forfeit his equity is almost everywhere conceded, but the extent to which it should be protected is susceptible of different answers. Some of the policy questions which arise are the following. Should the buyer, like a mortgagor, simply have a right to redeem the goods on paying the unpaid balance of the purchase price, or should he have an opportunity to reinstate the agreement by paying the instalments actually in arrears, exclusive of any acceleration clause? Should the seller be required to obtain a court order before repossessing and, upon such an application being made, should the court be empowered to stay repossession proceedings upon such terms as it sees fit? And again, should there be a compulsory resale in all cases and should the seller be entitled to claim any deficiency after a resale?

Finally, there is the question of the most effective method of enforcing the Act. The choice here lies between penal sanctions, civil penalties, and a licensing system, or all three. Weak sanctions do not deter and excessive penalties may deter too much; hence a well drafted act must show a proper sense of discrimination and adjust the sanctions in accordance with the gravity of the particular offence. With these preliminary remarks, I should now like to review the legislative history of the four countries which I have chosen for this purpose.

CANADA

Early conditional sellers found that the common law greatly favoured their enterprise. On the one hand, by a conjunction of the principle that a person cannot transfer a better title to goods than he himself has and the rule that the passing of title may be postponed for as long as the parties may agree, they were able to maintain their proprietary position even though the buyer was in possession of the goods. On the other hand, because in law the transaction was, and in Canada still is, only an executory agreement of sale, and not a chattel mortgage, they were able to avoid the registration requirements of the emerging bills of sale Acts as well as the fetters which equity places on a mortgagee seeking to foreclose. These advantages, however, did not survive for long. Between 1882 and 1907 all the provinces and territories adopted some form of legislation requiring registration of the conditional sale agreement or the marking of the goods with the seller's name, and, except in the case of Manitoba, conferring upon the buyer a right to redeem following repossession by the seller. It was further provided that if the seller intended to look to the buyer for any deficiency after a resale he was to give him notice of his intention to sell, together with certain other specified details. This requirement was, and still is, strictly interpreted, and it was early held that imperfect compliance deprived the seller of the right to sue for any part of the deficiency. Consequently, since a technical error in the contents of the notice to be sent to the buyer is all too easy, the defaulting buyer often received, and still receives, a windfall that is as unexpected as it is unjust. Another laudable, but ineffectual,

requirement of these early Acts was that the buyer was entitled to receive a copy of the contract within a specified time after its conclusion; but, since non-compliance only exposed the seller to a nominal fine, it could never have been of great practical importance. These provisions were modified in only minor respects in later years; they were adopted almost verbatim in the first Uniform Conditional Sales Act of 1922 and repeated in the subsequent revised uniform acts of 1947 and 1955; and they are in force today in most of the provinces. Although Ontario has never adopted any of the versions of the uniform act, the provisions in the Ontario Conditional Sales Act concerning the repossession and resale of goods are very similar to those in the uniform act. While the draftsmen of these statutes deserve great credit for appreciating so early the need to shore up the unequal bargaining position of the buyer, it must also be admitted that the redemption and foreclosure provisions fall far short of what is required for the protection of the buyer. First, these provisions do not require the seller to give the buyer any warning before repossessing the goods; secondly, they do not entitle the buyer to reinstate the contract upon paying the amount actually in arrears before the goods were repossessed; and, thirdly, they do not require the seller to re-sell the goods for the benefit of the buyer, even though the buyer has a substantial equity in the goods.

To resume my narrative, the next development of consequence was in the limited but, for the provinces concerned, economically important field of farm implements. With respect to such chattels, the prairie provinces of Alberta, Saskatchewan, and Manitoba enacted special legislation in 1913, 1915, and 1919. Much farm machinery which was being sold at the time was of an experimental character and not functioning satisfactorily, and farmers generally were being over-reached by harsh contractual provisions. These Farm Implements Acts were designed to remedy that situation. The Saskatchewan Act was, and still is, the most comprehensive of the three, and the ensuing remarks are accordingly based upon its provisions.

Every vendor of farm machinery must be licensed, and his books and premises may be inspected by inspectors appointed under the Act. Every contract is required to be in writing in one of the two forms prescribed by the statute, and no contract is binding upon the buyer until a copy of it has been delivered to him. The prescribed forms, in conjunction with several sections of the Act, set out the rights and duties of the parties, and may not be varied or excluded. In the case of new implements the seller is expressly required to warrant their fitness, and he is liable for his agent's representations. The manufacturer is also liable on the statutory warranties, even though he is not a party to the contract. The act contains specific provisions, in the case of "large implements", laying down the procedure for adjusting the parties' rights following repossession by the seller. Moreover, in all cases of repossession and resale the buyer is entitled to any surplus and, *semble*, liable for any deficiency. Finally, the Act establishes an Agricultural Machinery Board which, together with the Agricultural Machinery Administration, a government agency, is responsible for administering the statute and issuing regulations under it. Even allowing for the fact that the Farm Implements Act was designed to meet a special situation, it is still a remarkable example of an early piece of legislation containing many of the features which competent observers today regard as essential for the safeguarding of consumer interests in instalment sales. It introduces a statutory form of agreement, thereby automatically eliminating oppressive contractual provisions. It further regulates the parties' rights and duties—insofar as they are not already set forth in the statutory agreement—and in particular it prescribes when the seller may repossess and how he must proceed after repossession: thus the buyer's equity in the goods is carefully protected. Finally, to ensure that the statute is being observed, there are comprehensive licensing provisions with real bite in them.

Contemporaneous with the farm legislation was Alberta's decision to regulate the extra-judicial seizure of goods, including goods repossessed under a conditional sale agreement. The original Act of 1914 empowered only a sheriff or other person authorized by him to seize such goods, and provided that after seizure the goods were not to be sold except upon the order of a judge "granted . . . after consideration of all the facts and circumstances and upon such terms and conditions as to costs and otherwise as he shall determine." These provisions were completely revised in 1929, and the position is now as follows. At the time of seizure the sheriff must leave with the debtor a "Notice of Seizure". The debtor can serve a notice of objection to the seizure within fourteen days, and if he does so the onus is cast upon the seller to apply to the court for an order authorizing the property's removal and sale. The court may deal with the application in a variety of ways, but from the buyer's point of view the most important one undoubtedly is the power to suspend any order for sale pending payment of the debt by such instalments or the performance of such other conditions as the court may determine. It may be noted that this provision fully anticipates the similar powers conferred upon the English county courts under section 12 of the English Hire-Purchase Act of 1938. If not notice of objection has been served, the seller is entitled to proceed with the seizure and sale, but he is required to notify the buyer beforehand of the intended sale. Furthermore, if the buyer states in writing to the sheriff that the value of the goods exceeds the amount of the seller's claim, they may not be sold without the sheriff's consent. Finally, after the sale the seller must file a statutory declaration with the sheriff giving particulars of the amount realized and pay over the surplus, if any.

Until 1942, however, Alberta did not interfere with the seller's right to recover any deficiency following repossession and sale. An amendment to the Conditional Sales Act adopted in that year thereafter deprived him of the right by forcing him to elect between suing for the balance of the purchase price or repossessing. Why the amendment was introduced at this particular time is not clear. It appears, however, to have its emotional roots in a feeling fostered during the Depression that "it is not exactly fair that a man should be required to pay the full price for goods he doesn't get to keep." Whatever the merits of this argument, it is significant that similar provisions have now been adopted in Quebec, Newfoundland, and the Northwest Territories.

I must now return to Saskatchewan. This province even more than Alberta, has seriously curtailed the seller's rights and correspondingly strengthened the buyer's position. The new movement—not restricted to farm machinery—began in 1933 with a provision in the Limitation of Civil Rights Act restricting the seller's rights to his lien on the goods; in other words, he cannot sue for the purchase price at all. This amendment was recommended by a Select Special Committee of the Saskatchewan legislature in 1932. In 1939 and 1940 amendments were introduced concerning implied warranties and conditions, and empowering the court, on the buyer's application, to stay any intended repossession by the seller. These were no doubt inspired by the comparable provisions in the English Hire-Purchase Act, although the two are not identical. In particular, it should be noted that the power of the Saskatchewan courts to stay repossession proceedings is limited to specified items of goods; on the other hand, the buyer need not have paid a minimum amount before he can invoke the court's jurisdiction (as in the case in the English Act), nor is there any ceiling on the purchase price of the goods to which the sections apply. Further amendments making acceleration clauses substantially inoperative were adopted in 1958.

Thus it will be seen that the unconscionable seller (and, sometimes, the conscientious one, too) faces formidable hurdles in both Saskatchewan and Alberta. There have been attempts to challenge the legislation on constitutional

grounds, the argument being that it trenches upon the exclusive federal power to legislate on matters of banking and bills of exchange, but they have not succeeded.

The legislation which has been described thus far, with the exception of the farm implements Act, deals primarily with enforcing the seller's rights and terminating the contract. Attempts to control the activities of finance companies and retailers more directly, and to regulate the financial terms of the contract, began to be enacted in other provinces from 1938 onwards. Nova Scotia introduced a somewhat ambiguous licensing statute in that year, but it does not appear to be of much importance at the present time. It was apparently adopted because of a number of pre-war complaints about arbitrary repossession practices by some sellers. The Act requires every dealer engaging in conditional sales and every sales finance company to be licensed, and vests in the Minister of Municipal Affairs, who is the licensing authority, the right to cancel or suspend any licence at any time "in his absolute discretion". He may also appoint inspectors to examine retailers' books. No licences, however, have been refused, cancelled, or suspended since 1950. Newfoundland has also recently adopted a licensing statute, but its purpose appears to be to protect investors rather than consumers.

Of far greater interest as a precedent for possible future legislation is the federal Small Loans Act, which was adopted in 1939. Based on the sixth draft of a model act sponsored by the Russell Sage Foundation in the United States, it contains features which competent observers also believe necessary for the protection of the purchase-credit consumer. These are: (i) strict licensing requirements coupled with far-reaching duties and powers of inspection on the part of the Superintendent of Small Loans, and an obligation on every licence to make annual returns; (ii) regulation of the maximum permissible rates of interest which, since 1956, have been set on a sliding scale and include every other possible charge, with the exception of credit life insurance; (iii) the borrower's right to pay off the loan at any time without bonus or extra charge, and the requirement that the loan must be repayable at approximately monthly intervals; and, (iv) regulation of delinquency charges. Both the Act and its administration have been conspicuously successful, as may be seen from the admirable annual reports issued by the Superintendent of Small Loans and the apparent absence of any reported litigation involving small loans.

The federal statute may also have influenced the draftsmen of the Quebec Instalment Sales Act of 1947, which added Articles 1561a to 1561j to the Code Civil. Quebec too, as a civil law province, has long recognized conditional sales, but made no attempt to regulate them until this Act. The Act was apparently proleptic in character and was designed, on a provincial level, to control instalment sales in the interests of consumers of modest means following the contemporaneous repeal of the federal wartime price regulations. What is perhaps even more striking, in view of the statute's far-reaching restrictions, is the fact that the Quebec business community is said to have given the bill its full support.

Subject to two exceptions, the Quebec statute only applies to retail sales not exceeding eight hundred dollars. Also excluded are a wide range of goods, including motor vehicles. But within these limits the Act regulates instalment sales more comprehensively than either the Saskatchewan or the Alberta legislation. Thus it prescribes a minimum down-payment of fifteen per cent and a sliding scale of maximum maturity periods. Deferred payments must be of an equal amount, with the exception of the last one, which may be for a smaller amount, the buyer is given a right of prepayment both as to single payments and of the whole unpaid balance. In such cases he is entitled to a rebate of nine per cent per annum of the instalment or balance which is prepaid. A maxi-

imum finance charge of $\frac{3}{4}$ of 1 per cent only for each month of the duration of the agreement is permitted. There are compulsory disclosure requirements concerning the regular cash price, the time price, the down-payment, and the instalments, and the written contract as a whole must follow the form prescribed in a schedule to the Act, all changes or additions not compatible with the Act being declared null and void. As in the Alberta Act, so here, the seller is put to his election if the buyer is in default: he may either sue for the unpaid instalments or retake possession of the goods and retain any payments which have been made. If he elects the latter course the buyer is released from all further liability for the balance of the price, but he or his creditors may redeem the goods within twenty days of repossession. Non-compliance with the disclosure, down-payment, rate, rebate, and form of contract requirements apparently deprives the seller of his title to the goods. It may be questioned, however, whether this sanction is as effective as the one more commonly found in the American statute, namely, depriving the seller of the right to recover any part of the finance charge.

Influenced by the Quebec precedent, New Brunswick also tried a short-lived experiment in controlling the terms and duration of retail instalment sales. These provisions were introduced in 1949, and while they were in force called, like the Quebec statute, for a minimum down-payment of fifteen per cent and a maximum maturity rate of twenty-four months. Excluded again were a wide range of goods, but not motor vehicles. The restrictions were found to be difficult to administer and enforce, and they were accordingly repealed in 1959.

In conclusion, brief reference should also be made to the legislative attempts which have been made in Canada since the end of the war to compel disclosure of the finance charge in terms of a percentage rate. (I am intentionally avoiding the use of the term "interest rate" for reasons which are explained in my Addendum). As I have already indicated, Quebec adopted disclosure requirements as early as 1947, but these provisions only require disclosure of the finance charge in dollars and cents. Since then Alberta and Manitoba have also adopted disclosure Acts, the first in 1954 and the second in 1962. The Alberta Act was amended last year and now requires the finance charge to be expressed as a percentage rate. However, this part of the amending Act has not yet come into force. The original Manitoba Act also contained similar provisions, but these were deleted in an amending Act of 1963. A striking omission in both Acts is that they do not require a copy of the agreement containing the prescribed particulars to be supplied to the buyer at any time. The Committee is, of course, familiar with Senator Croll's Bill and its subsequent history, and I need not therefore enlarge on it.

From the foregoing review it will be seen that the existing conditional sales and retail instalment sales legislation in Canada is both varied and, in some respects, distinctive. Using as our yardstick the six heads enunciated at the beginning of this brief, the position with respect to each of them may be summarized as follows. Three provinces have disclosure requirements, but only one, Quebec, attempts to regulate minimum down-payments and maximum maturity rates directly. Alberta and Saskatchewan, however, in a very real, if heterodox, may do so indirectly, in so far as they eliminate the seller's right to sue for any deficiency after repossession. This factor is bound to make retailers more careful in extending credit. Quebec, again, is so far the only province which has shown any appreciation of the importance of prohibiting excessive finance charges; but in view of the limited coverage of the Quebec Act, the seemingly arbitrary way in which the maximum permissible rate has been arrived at, and the failure to relate it either to the amount financed or to the length of the contract, its provisions on this point are more important for the principle they establish than for the manner in which they apply it.

Its rebate provisions are significant for the same reason. Two provinces, Saskatchewan and Quebec, have made serious attempts to protect the buyer from oppressive contractual clauses, and the precedent they have established of permitting only a statutory form of agreement is most valuable, since it automatically solves the problem of disclaimer clauses. Neither province directly prohibits the taking of promissory note, but this is the indirect effect of section 18 of the Saskatchewan Limitation of Civil Rights Act, as shown by *Traders Finance Corp. v. Casselman*, (1960), 22 D.L.R. (2d) 177 (Supreme Court of Canada). However, much more attention deserves to be focused on the increasingly urgent problem of promissory notes and "cut-off" clauses.

All of the provinces have some provisions protecting the buyer's equity, but those in force in the provinces other than Alberta, Saskatchewan, and Quebec have only a limited value. When the buyer cannot keep up his instalments, it is not likely that he will be able to raise the balance of the purchase price in order to redeem the goods after they have been repossessed. Hence the Saskatchewan and (semble) Quebec acts are much more realistic in permitting the buyer to reinstate the agreement on simply paying the instalments which are in arrears. Best of all, however, are the powers of staying repossession proceedings and re-adjusting the time and amount of the payments which the Alberta and (though in an unduly restricted class of cases) Saskatchewan provisions confer on the courts.

If, for the reason explained, the recent Newfoundland act is ignored, Nova Scotia alone has licensing requirements, but here again their main value lies in the principle they establish. Experience under the Small Loans Act proves how effective such provisions are as a deterrent against unlawful practices and as a means of maintaining a high standard of conduct among licensees. A well drawn Act and the regular exercise of inspection powers are, however, essential prerequisites.

Three final points deserve brief mention. The first is that, of the three provinces with any considerable amount of consumer legislation, only the Quebec act has a limited coverage. The Alberta and Saskatchewan provisions, with minor exceptions, apply to all instalment sales. This is striking contrast to the American retail instalment sale legislation which is usually confined either to motor vehicles, or to consumer goods, or to sales not above a certain price. The other point concerns the almost total absence of any protective legislation in the provinces other than Alberta, Saskatchewan, Quebec and Newfoundland. The omission is particularly striking in the case of Ontario, which is after all the Province with the highest volume of consumer credit.

Finally, it will be noted that almost all the legislation involves conditional sales and not other forms of consumer credit. This is readily explicable. Until recently, and with the exception of direct loans (which are of course governed by the federal Small Loans and Bank Acts), the bulk of consumer credit assumed the form of conditional sales. Moreover, it is in this area that the majority of problems arise. The amounts involved in the case of unsecured credit are usually much smaller and it is only where the debt is secured by some title-retaining device that foreclosure problems and deficiency claims arise. All forms of consumer credit, however, raise disclosure issues and the desirability of regulating finance charges, and future legislation must take this fact into consideration.

THE UNITED STATES

The American states appear, on the whole, to have reacted more slowly than the Canadian provinces to the need for buyer protection in conditional sales; thus, at the time when the National Conference of Commissioners on

Uniform State Laws adopted the Uniform Conditional Sales Act in 1918, only a handful of state acts safeguarded the buyer's equity in the goods after they had been repossessed. The American Uniform Act, however, was more solicitous of the buyer's rights than the Canadian Uniform Acts of 1922 and 1955. Like the Canadian acts, the American Act sought principally to protect the buyer by "sedulously" guarding his equity of redemption, but, unlike the Canadian Act, it did so much more carefully. The American act's superiority lay in that (i) it compelled the seller, after repossessing, to sell the goods for the buyer's benefit if the buyer had paid more than fifty per cent of the purchase price or if he demanded a resale, and (ii) it required any sale on behalf of the buyer to be made within thirty days of repossession or after receipt of the buyer's demand. If the time limit was not observed, the buyer was freed of all further obligations. Moreover, the act, as judicially interpreted, entitled the buyer to re-instate the contract on paying the instalments in arrears without regard to any acceleration clause. This was a most important safeguard. Unfortunately, however, the American Act was caught between the end of one period in instalment selling and the beginning of another. It could not therefore anticipate the new problems which the era of mass-produced automobiles and the rise of the finance company would bring with them, and it was left to the later so called retail instalment sales acts to deal with them. The uniform act has now been replaced by Article 9 of the Uniform Commercial Code, Part V of which re-enacts most of the above features in the earlier act.

The early years of the depression intensified the abuses which had begun to make their appearance even before then. Indiana and Wisconsin initiated the first of many official state inquiries into instalment sales practices, the first in 1934 and the second a year later. Both reports found many abuses and made recommendations for legislative action, which were substantially adopted in the Indiana and Wisconsin Acts of 1935. In the same year, a dozen other bills to regulate retail instalment sales were introduced in other states, but none survived. The Indiana and Wisconsin acts and most of the proposed bills had the following features in common: (i) they required detailed disclosure in the contract of the agreement's financial terms; (ii) they either regulated, or authorized a government agency to regulate, maximum permissible finance charges; (iii) they required the licensing of dealers and sales finance companies and they empowered designated agencies to investigate a licensee's business, to hold hearings, and to revoke licences for breaches of the act and other misdemeanors.

In spite of the continuing need for regulation, only five states had retail instalment sales legislation of any kind at the outbreak of the Second World War. By 1950, the number had grown to twelve, and in the next seven years was increased by four. 1957, however, was a watershed year: in that year no less than nine states and one territory enacted protective legislation for the first time. The numbers continued to grow: as of June 1960, thirty-one states had a motor vehicles retail instalment sales law and eighteen an "all goods" law. Moreover, many of the earlier acts have been revised and enlarged. The common denominator of the postwar legislation, as of the bills and acts of 1935, is found in the compulsory disclosure requirements. Most of the acts also regulate finance charges (including refinancing and delinquency charges) and the buyer's right to a rebate in the case of prepayment. Only fourteen, however, contained licensing provisions in 1958. Apart from these prominent landmarks, there exist wide differences in both the coverage and the contents of the acts.

The trend, however, appears to be in favour of comprehensive legislation, as may be seen from New York's example. New York adopted the uniform conditional sales act in 1922; thereafter, apart from some procedural changes,

it added no further substantive legislation until 1941. In that year a limited "disclosure" bill was enacted. Abuses continued to abound, and in 1947 a Joint Legislative Committee on Instalment Financing was established to inquire into existing practices with a view to recommending appropriate remedial legislation. The Committee submitted an Interim Report in 1948 and its Final Report in 1949.

Legislative action of any kind, however, was postponed until 1956. In that year, a licensing law and a motor vehicles retail instalment sales act which included provisions for maximum finance charges were adopted. Both acts were repeatedly amended in subsequent years. In 1957, moreover, a general retail instalment sales act applicable to all consumer goods other than motor vehicles, and including all credit sales whether secured or not, was adopted. Governor Averell Harriman also appointed a Consumer Counsel in 1955 to guide the legislation. He further recommended the establishment of a permanent agency devoted to the task of consumer education and protection.

The proliferation of state laws and the emergence in them of certain common features has also encouraged the search for a uniform law. In 1940 the Russell Sage Foundation prepared a "Preliminary draft of a uniform law to regulate instalment selling," but, since the Foundation itself ceased work shortly afterwards, the draft never proceeded beyond the preparatory stage. In 1948, a committee of the National Conference of State Small Loan Supervisors drafted an act restricted to motor vehicles and based on existing state legislation. Five years later the same committee advocated a comprehensive act covering all consumer sales. It stressed the following points as essential features of sound regulation: (i) licensing; (ii) limitation of finance charges and dealer participation in the charge; (iii) the buyer's right to a rebate; (iv) periodic examination of licensees; (v) control over "tie-in" sales of insurance; and (vi) stringent penalties for violations. The automobile section of the American Finance Conference has also drafted a model bill on three separate occasions, one or other version of which has apparently been adopted in various state acts. Finally, the National Conference on Uniform State Laws has now been invited by the Council of State Governments to draw up a text which, according to the recommendation of a special committee of the Conference, should take the form of a model rather than a uniform act.

The Committee is, I believe, familiar with Senator Douglas' disclosure bill in the U.S. Senate and the vigorous discussion it has aroused. I need not therefore devote any time to it.

ENGLAND

Consumer credit in the United Kingdom is now running at about £1,000 m. annually. Almost all this assumes the form of hire-purchase credit, with a small percentage being accounted for by credit sales, that is, outright sales in which the seller retains no title to the goods but the purchase price is payable in instalments over an agreed period. Revolving charge accounts and similar consumer credit schemes have so far not been introduced, and consumer loans by agencies other than banks appear to be of insignificant size.

Although a hire-purchase agreement differs in form from a conditional sale agreement, in substance it is the same. The hire-purchase form of agreement was first adopted in the 1890's in order to circumvent certain restrictive provisions in the factors Act of 1889 and the Sale of Goods Act of 1893 (both of which Acts have also been adopted in Ontario), and what makes it significant is the fact that this form of agreement is widely in use throughout the Commonwealth, and for the same reasons. In a hire-purchase agreement the "hirer" hires the goods from their owner and, apart from an initial payment, agrees to pay a prescribed rental so long as he retains the goods. He is free, however,

to terminate the agreement at any time. When the rentals paid plus the initial payment reach a sum which, in a conditional sale agreement, would be equivalent to the "time-price" of the goods the hirer is entitled to exercise an option to purchase the goods outright for a nominal sum. To deter the hirer from terminating the agreement prematurely, a so called "minimum payment" clause is usually inserted, which is designed to serve the same function as a deficiency clause in a conditional sale agreement, but in the past it has been much more arbitrarily drawn and has given rise to many abuses.

Apart from the special problems created by the anomalous nature of the hire-purchase agreement, the problems encountered in instalment sales in England have been substantially the same as in North America. Nevertheless, until 1938, when the first Hire-Purchase Act was adopted, hire-purchase agreements and credit sales were not subject to any statutory regulation. The aim of the Act was to eliminate the following then major abuses in hire-purchase trading: (i) "the snatch back", that is, firms who were more interested in repossessing goods than in being paid for them; (ii) "linked-on" or "add-on" agreements; (iii) extortionate claims under the minimum payment clause; (iv) the failure of agreements to specify the cash price of the goods; and (v) exclusionary clauses precluding hirers from complaining about defective goods. The Act deals with these problems in the following manner. It protects the hirer's "equity" in the goods by requiring the owner to apply to the court for leave to repossess the goods where more than one third of the hire-purchase price has been paid. Upon such an application the court is given a discretion to grant the order without reservation, or to allow it and postpone its operation upon terms, the terms being that the hirer will pay the balance of the hire-purchase price at such times and in such amounts as the court thinks just having regard to the means of the hirer. As a further alternative, an order may be made for the specific delivery of a part of the goods to the owner and the transfer to the hirer of the owner's title to the remainder of the goods. In practice it is an order of the second kind which is usually made. Thus the English court, like the Alberta court, is given power to adjust the financial terms of the agreement—a most important power where the hirer has fallen upon hard times or where the court feels that the vendor has behaved unconscionably. "Add-on" agreements were made largely ineffective, and the injustices of the minimum payment clause were partially, and somewhat crudely, reduced by the provision that, where the hirer has voluntarily terminated the agreement, the owner is only entitled to recover the difference between one-half of the hire-purchase price and the sums already paid. Mandatory disclosure requirements, along familiar North American lines, were designed to eliminate the third abuse, while exclusionary clauses involving warranties and conditions are outlawed for all practical purposes by section 12 of the Act. It should be noted, however, that the 1938 Act was limited to hire-purchase and credit-sale agreements where the hire-purchase or total purchase price did not exceed £50, in the case of motor vehicles, and £100 in any other case. In the case of livestock a higher limit of £500 was fixed.

Since 1938 three further acts have been added to the statute book. They are The Hire-Purchase Act, 1954, The Advertisements (Hire Purchase) Act, 1957, and The Hire-Purchase Act, 1964. The first of these measures raised the financial ceiling of the 1938 Act to £1,000 in the case of livestock and £300 in all other cases. The 1957 Act was passed with a view to removing widespread abuses in advertising practices—the type of advertisement that said, for example, "Yours for only £1 down", without specifying the cash price, the hire-purchase price, or the number of weekly or monthly payments. The Act, as amended by the 1964 Act, now requires any advertisement which pur-

ports to contain details of payments in respect of any goods to include the following information: (i) the amount of the deposit, or a statement that no deposit is payable; (ii) the amount of each instalment directly expressed; (iii) the total number of instalments payable; (iv) the length of the period in respect of which each instalment is payable; (v) the number of instalments, if any, which are payable before delivery of the goods; and (vi) the cash price and the hire-purchase price of the goods. Moreover, no undue prominence may be given to any part of the required information as compared to any other part. This last provision was of course designed to prevent a trader from emphasizing the sugar coating at the expense of the underlying pill.

The Hire-Purchase Act, 1964, was introduced with a view to implementing the recommendations concerning consumer credit contained in the Molony Report on Consumer Protection which was published in 1962. The Act is long and complex, and many of its provisions merely amend the earlier acts. Among the new provisions the following may be mentioned. First, the financial ceiling of the 1938 Act has now been raised to £2,000 for all types of goods, but for the first time incorporated companies are excluded entirely from the protection of the act. Secondly, the hirer or buyer is now entitled to receive immediately a copy of any agreement or offer signed by him. Thirdly, where a sale or hire-purchase agreement is concluded or an offer is signed by a hirer or buyer at a place other than trade premises the hirer or buyer is entitled to cancel the agreement at any time up to four days following the service upon him of a statutory copy of the agreement. This provision was designed to deal with the abuses of door-to-door sales. (In passing it may be noted that Saskatchewan also has a Commercial Agents Act. This provides for the licensing of itinerant salesmen, but does not confer any general right of cancellation on the householder.) Finally, the Act seeks to protect private purchasers of vehicles which are subject to undisclosed hire-purchase agreements by providing that the hirer under such an agreement shall be deemed to be the owner of the vehicle for the purpose of passing a good title to the private purchaser. The United Kingdom has no system of public registration for hire-purchase agreements, and the resultant frequency with which unsuspecting persons found themselves purchasing encumbered automobiles had been causing grave concern. I mention this feature of the 1964 Act because I know the Ontario position is equally unsatisfactory.

It will be noted from the foregoing review that finance charges are not regulated in the United Kingdom, nor have any attempts been made so far to compel disclosure of the charge in terms of a percentage rate. These omissions are mainly due to the fact that there has been very little discussion about these problems so far. Dealers' commissions have, however, attracted a great deal of criticism. Minimum down-payments and maximum maturity periods have been regulated on and off since the end of the war under wartime emergency powers, but for economic, not social reasons.

In conclusion, I should also say a word about the Consumer Council which was established in March, 1963, pursuant to another recommendation of the Molony Committee. The Council consists of a chairman and ten members and is supported by a full-time director and a staff of thirty employees, which includes a lawyer and an economist. The Council received a grant-in-aid of £60,000 in 1963-64 and of £125,000 for the current fiscal year. The terms of reference of the Council are wide, and during its first year of operations the Council has explored and recommended legislative action on a wide variety of consumer problems. (I have supplied Mr. Harcourt with a copy of the Council's first annual report). I mention all this because it has for some time now become apparent that consumer affairs can no longer be dealt with in an *ad hoc* and fragmentary fashion but require the same continuous attention as any other activity of major public concern.

AUSTRALIA

Consumer credit plays an important role in the Australian economy, and now amounts annually to well over a billion dollars. As in the case of the United Kingdom, most of this assumes the form of hire-purchase credit.

Hire-purchase legislation in the Commonwealth began in 1931, and by 1959 all the states had some kind of act on the subject. The measures, however, differed widely in content. In 1959, representatives of the states drafted a uniform hire-purchase bill, and this has now been enacted in all the states. The bill is comprehensive in character and has provisions on each of the six heads of subject-matter adumbrated at the beginning of this brief. Several of the Australian provisions deserve special mention: (a) the Bill does not impose maximum finance charges (although some of the states have separate provisions to this effect) but empowers a court to re-open a transaction at any time and to reduce any finance charge which it deems unconscionably high. The effect of this provision is to extend to consumer sales the powers which the Australian courts (and the Ontario courts, too, under the Ontario Unconscionable Transactions Relief Act) already possessed with respect to direct loans. (b) The Bill entitles the hirer to a rebate in the finance charge both where he voluntarily prepays the outstanding balance and where the owner terminates the contract. (c) The Bill prohibits the payment of commissions to dealers, save where the dealer guarantees performance of the hirer's obligations. In such an event, the commission may not exceed 10 per cent of the finance charge.

CONCLUSION

Writing about instalment credit in 1934, Nugent and Henderson, two American economists, predicted that, "As in the small loans field, society will probably begin by restricting the use of certain credit instruments and end by finding complete supervision necessary." The preceding survey shows that their prophecy was substantially correct, not only for the United States, but also for other countries. The progress towards comprehensive legislation has, however, been uneven in all the jurisdictions examined and has still not reached full maturity. Nevertheless, it may fairly be claimed that the pattern of evolution is similar in all four countries. The initial concern is to protect the buyer's or hirer's equity. This is followed, and sometimes accompanied, by the prohibition or regulation of unfair contractual clauses, especially those relating to warranties and conditions. In the third—generally postwar—stage there is a belated realization of the importance of regulating the financial terms of the agreement. Hence disclosure requirements and hence the limitation of finance charges of various kinds and the statutory recognition of the buyer's right to a rebate in case of prepayment.

Reviewing the progress to date in numerical terms, we see that the position is as follows. Disclosure requirements are a common feature in the legislation of the United States, England, and Australia, but not so far in Canada. On the other hand, only England insists on frankness and fairness in instalment credit advertising. Equally conspicuous is the almost total absence in all four jurisdictions of statutory control over minimum down-payments and maximum maturity periods. Nevertheless, the social importance of some form of regulation can hardly be denied. A traditional suspicion of financial institutions and a strongly implanted belief that interest rates should be limited by the state explains why, on the whole, the American states have been much quicker than the other jurisdictions to regulate maximum finance charges. None of them, however, has dealt so boldly with the thorny issue of dealers' commissions as the Australian uniform bill. Canada and England, it will be noted, are much behind in both these legislative developments. Concern over unfair contractual

clauses is widespread, but the closest attention appears so far to have been paid to them in England and Australia and in a minority of the American states and Canadian provinces. In particular, disclaimer clauses concerning warranties and conditions have been carefully regulated in the Anglo-Australian legislation, as indeed they should be. The statutory form of contract as a solution to these problems is a distinctive feature of the Quebec and Saskatchewan acts and one which has much to commend it. The other Canadian provinces, regrettably, lag behind in this field too. Repossession and resale procedures are now widely regulated in all four countries, but there is little uniformity of approach. Judicial supervision over this aspect of the contract is the most advanced solution offered in the English, Alberta, and, for a limited class of goods, Saskatchewan acts, but the expedient of forcing the seller to elect between his remedies and even of limiting them drastically is peculiarly Canadian.

Strong divergencies are also apparent in the methods adopted for enforcing the legislation. Only in the United States is the licensing and supervision of finance companies regarded as an almost indispensable adjunct of specific civil penalties. The reason, again, is largely historical (the small loan precedent); and although these features can easily be justified on their own merits, it is doubtful whether they will ever be adopted in England or Australia. Canada, however, in view of its own successful small loans experience, is a possible convert.

In the twentieth century, the century of the common man, the common man, paradoxically, has been at a disadvantage because of the powerful forces arraigned against him in the market place and his own excusable ignorance of legal and economic facts. I hope that this survey will have shown that the means and precedents for restoring the balance are at hand.

Respectfully submitted

JACOB S. ZIEGEL.

October 23, 1964.

SELECTED TABLE OF STATUTES

A. CANADA

I. Provincial legislation

Alberta:

- (a) The Conditional Sales Act, R.S.A. 1955, c.54 am. 1962, c. 10.
- (b) The Credit & Loan Agreements Act, R.S.A. 1955, c. 66, am. 1963, c.14.
- (c) The Farm Machinery Act, R.S.A. 1955, c. 110.
- (d) The Seizures Act, R.S.A. 1955, c. 307, am. 1957, c. 89.

British Columbia:

The Conditional Sales Act, R.S. B.C. 1961, c. 70.

Manitoba:

- (a) The Farm Implements Act, R.S.M. 1954, c. 83, am. 1956, c. 21 and 1957, c. 23.
- (b) The Lien Notes Act, R.S.M. 1954, c. 144.
- (c) The Time Sale Agreement Act, S. Man. 1962, c. 76, am. 1963, c. 58.

New Brunswick:

The Conditional Sales Act, R.S.N.B. 1952, c. 34, am. 1955, c. 32 and 1959, c. 35.

Newfoundland:

- (a) The Conditional Sales Act, 1955, A. Nfld. 1955, Act No. 62, am. 1959, No. 74, 1960, No. 11, and 1962, No. 67.
- (b) The Loan Companies and Finance Companies (Licensing) Act, 1961, Acts 1961, No. 31, am. 1962, No. 36.

Northwest Territories:

- (a) Conditional Sales Ordinance, R.O.N.W.T. 1956, c. 15.
- (b) Seizures Ordinance, O.N.W.T. 1959 (1st Session), c. 8.

Nova Scotia:

- (a) The Conditional Sales Act, R.S.N.S. 1954, c. 47.
- (b) The Instalment Payment Contracts Act, R.S.N.S. 1954, c. 131.

Ontario:

- (a) The Conditional Sales Act, R.S.O. 1960, c. 61.
- (b) The Conditional Sales Amendment Act, 1962-63, c. 18.

Prince Edward Island:

The Conditional Sales Act, R.S.P.E.I. 1951, c. 28, am. 1952, c. 10, and 1957, c.7.

Quebec:

Instalment Sales Act, S. Que., 11 Geo. VI, c. 73 (1947) (adding Articles 1561-a to 1561-j to the Code Civil, am. 12 Geo. VI. c. 47.

Saskatchewan:

- (a) The Agricultural Machinery Act, 1958 S.S. 1958, c. 91.
- (b) The Commercial Agents Act, S. Sask., 1959, c. 97, am. 1961, c. 24.
- (c) The Companies Inspection & Licensing Act, R. S.S. 1953, c. 134, am. 1956, c. 19.
- (d) The Conditional Sales Act, 1957, S.S. 1957, c. 97, am. 1958, c. 84, and 1961, c. 42.
- (e) The Limitation of Civil Rights Act, R.S.S. 1953, c. 95, am. 1954, c. 19, 1957, c. 33, 1959, c. 35, and 1961, c. 46.

Yukon Territory:

Conditional Sales Ordinance, R.O.Y.T. 1958, c. 20.

II. *Federal legislation:*

The Small Loans Act, R.S.C. 1952, c. 251, am. 1956, c. 46.

B. ENGLAND

- (a) The Hire-Purchase Act, 1938, 1 & 2 Geo. 6, c. 53.
- (b) The Hire-Purchase Act, 1954, 2 & 3 Eliz. 2, c. 51.
- (c) The Advertisements (Hire-Purchase) Act, 1957, 5 & 6 Eliz. 2, c. 41.
- (d) The Hire-Purchase Act, 1964, 11 & 12 Eliz. 2, c. 53.

C. AUSTRALIA

The Uniform Hire-Purchase Bill, 1959.

State Acts (all of these have adopted the uniform bill, with or without modifications and/or additions): see

New South Wales:

The Hire Purchase Act, 1960.

Queensland:

Hire-Purchase Act of 1959.

Tasmania:

Hire-Purchase Act, 1959.

Victoria:

Hire-Purchase Act, 1959.

Western Australia:

Hire-Purchase Act, 1959.

South Australia:

Hire-Purchase Agreements Act, 1960.

D. NEW ZEALAND

The Hire Purchase Agreements Act, 1939.

E. U.S.A.

- (a) The Uniform Conditional Sales Act (1918), 2 Uniform Laws Annotated.
- (b) The Uniform Commercial Code, Article 9: Secured Transactions (1962 official Text).

Selected State Acts:

Indiana:

Retail Instalment Sales Act, Ind. Ann. Stat., ss. 58-901 to 945 (Suppl. 1957).

Maryland:

Ann. Code, Article 83, ss. 116-52 (1957 ed.)

New York:

Motor Vehicle Retail Instalment Sales Act, Personal Property Law (P.P.L.), Article 9, ss. 301-312.

Retail Instalment Sales Act, P.P.L., Article 10, aa. 401-419.

Wisconsin:

Rules & Regulations & Law relating to the Licensing of Sales Finance Companies, Wis. Stat. Ann. s. 218.01 (1) - (8) (Suppl. 1957).

ADDENDUM ON A LAW REQUIRING THE FINANCE CHARGE TO BE STATED IN A MONTHLY OR ANNUAL PERCENTAGE.

Fair-minded persons will agree that the consumer should be in a position to compare the finance charges of different retail outlets and financial agencies, just as he can compare the price of any other commodity, and that the simplest—if not, indeed, the only effective—way in which this end can be accomplished is to require the finance charge to be stated in terms of a percentage rate. If these premises are granted, then convincing reasons would have to be shown why such a requirement should not be adopted by the legislature. Several such reasons have been advanced, and I should like to comment on them briefly. Before embarking on this task, however, a number of preliminary comments may be helpful.

First, the disclosure problem is growing in urgency because of the increasing number of outlets offering consumer credit and the lack of uniformity among them in the statement of their finance charges. Thus if the consumer wishes to finance the acquisition of an automobile, he can either borrow the money from a bank, a small loans company or a credit union, or he can purchase the car on conditional sales terms from an automobile dealer. But each of these outlets states its finance charge in a different way, so that the consumer has no ready way of ascertaining which of them offers him the cheapest form of credit. Moreover, units of the same type of financial agency may state their charge in different ways. The chartered banks, for example, state their charge for consumer loans in four different ways, namely, as an "add-on" charge, as a "discount" charge, as a simple rate of interest coupled with certain additional charges, and as a simple rate of interest with the loan being repayable by the "Morris Plan" method. (I appreciate, of course, that banks and small loan companies are subject to federal control, and this indicates the desirability of federal-provincial co-operation in this area).

Secondly, it is quite understandable that the business community should be opposed to such a disclosure law, nor are some of their arguments devoid of merit. Most laws which change the status quo are opposed by a section of the community. But this, of course, is not the end of the matter, for if it were no legislation which did not win unanimous approval could ever be adopted. There is here a conflict of interests (though I think the conflict is more apparent than real) between two important sectors of the community, and as is so often the case in such conflicts the legislature has to make a judgment as to which of the two interests is the more important—the right of the consumer to know or the desirability of not complicating commercial transactions.

Thirdly, voluntary disclosure of the percentage rate is already made in some highly significant cases, namely, by small loans companies in the case of small loans and by such large retail chain stores as the T. Eaton Co. in respect of revolving charge accounts. (See the specimen forms of contracts in Part III of the brief). It is not correct, therefore, to suggest, as is often done, that the disclosure principle is a novel one in Canada. It is true that the small loan contracts state the finance charge in terms of a "step" rate, but this appears to be because the Small Loans Act itself sets the maximum permissible rates in this way.

Finally, in my opinion, full disclosure of the financial aspects of a consumer credit transaction will enhance the reputation of consumer credit agencies and increase public confidence in their integrity. Indirectly, therefore, the proposed law is itself in the best interests of the business community. This has been the experience in other fields, such as securities and company law

legislation, where legal reforms were at first vigorously opposed but have now been accepted as normal and necessary measures for the protection of the public.

I should now like to deal with the objections which have been raised against the proposed law:

- (a) That it is misleading to describe a finance or carrying charge as "interest".

This appears to be largely a matter of semantics. How the percentage rate is described is not important. What is important is that the finance charge be expressed as a percentage on the declining unpaid balance of the debt. The problem of how to describe the percentage rate has created no difficulties for such companies as the Household Finance Corporation or the T. Eaton Co. The small loans contract of the former describes the percentage charge as representing "the total cost of the loan". The revolving credit plan agreement of the latter company provides "that the company shall debit my said account with a monthly service charge, until further notice to me, of $1\frac{1}{2}\%$ of the balance at the end of the previous month". Both descriptions are equally satisfactory.

- (b) That where credit is being extended for only a small amount, the percentage rate will be high and the consumer will draw erroneous conclusions as to the profit made by the credit agency.

The answer to this argument is twofold. In the first place, the apprehensions as to the consumer's reaction are probably unfounded. Neither the small loan companies nor the large retail chain stores have suffered a loss of business as a result of stating their charges in percentage terms. Secondly, it is a question of educating the consumer. He should learn to appreciate (if he does not already do so) that consumer credit is considerably more expensive than other forms of credit. To the extent that disclosure of the percentage rate will bring home to the consumer this fact, this can only be regarded as a gain.

- (c) That there are various ways of calculating the percentage rate, and that each of them gives a different result.

The legislation can indicate which of the several available formulae shall be used. The Alberta Act, for example, empowers the Lieutenant Governor in Council to prescribe the appropriate formula.

- (d) That it would take a small retailer a disproportionate amount of time to work out the correct percentage in each case, and that he could easily make a mistake.

Tables of calculations are now generally in use by retailers and could just as easily be prepared for use under the new legislation. The legislation could also provide that any percentage figure taken from a table whose contents have been approved by the Superintendent of Insurance or some other designated official, shall be deemed to be correct and in conformity with the Act. The Act could further provide as does the English legislation with respect to breaches under the Hire-Purchase Acts, that where the breach is inadvertent and the consumer has not been prejudiced by it, the court may waive an otherwise applicable penalty.

- (e) That it would encourage retailers to bury some of the cost of credit in the cash price of the goods, so as to show a more favourable percentage figure.

The dangers of this happening on any extensive scale are entirely a matter of speculation. In any event the device would only be successful if all the merchants in a given trade followed suit. If they did not, consumers would notice the difference in cash price and favour the merchant with the lower price with their custom. The argument is also revealing because it tacitly admits that under the existing methods of stating finance charges, the consumer cannot

readily compare one finance charge with another. The reasoning which underlies this objection is also inconsistent with objection (f) below.

(f) That the consumer is not rate conscious.

This is undoubtedly true of a substantial number of consumers (though by no means all, as the increasing resort to bank credit shows), but the conclusion which the opponents to the disclosure law seek to draw from the premise does not follow. The consumer is not rate conscious because he has not learned to appreciate the importance of the subject and because the present diversity of methods in stating finance charges effectively deters him from trying to make comparisons. Most consumers also sign contracts without reading or understanding their contents, yet one would not argue that this is any justification for society acquiescing in the presence of unfair clauses in such contracts.

(g) That it is impossible to calculate the percentage rate in the case of revolving charge accounts where the amount outstanding at any particular time is unpredictable and may fluctuate from month to month.

Two systems of calculating the charges on such accounts appear to be in use at the present time. The large retail stores, such as the T. Eaton Co. and the Hudson's Bay Co., apply a uniform rate of charge, regardless of the amount outstanding at any time. They obviously create no problem. Other stores, on the other hand, state their carrying charges in dollars and cents and the charge does not bear a constant ratio to the amount outstanding. This method does create a problem for the legislature. The problem could, however, be resolved by permitting such stores to state the percentage rate in terms of a monthly rate of the amount outstanding at the beginning of each preceding month, calculated to the nearest $\frac{1}{4}$ of 1%. The stores which presently use the second method would of course always be free to adopt a uniform percentage rate. (In passing, I may point out that I understand from the credit managers of two very large stores which already use the percentage method that it takes their staff only a few hours each month to make the necessary calculations. The use of modern calculating machines apparently reduces the work almost to a formality).

Respectfully submitted.

JACOB S. ZIEGEL.

Said Total Deferred Payments are payable at the office of Industrial Acceptance Corporation Limited at

CASH SELLING PRICE (INCLUDING ALL TAXES).....\$.....
INSTALLATION OR OTHER CHARGES.....\$.....
TOTAL DELIVERED PRICE.....\$.....
Less--CASH PAYMENT.....\$.....
TRADE-IN.....\$.....
 (Fair Valuation)
UNPAID BALANCE.....\$.....
INSURANCE (MARINE).....\$.....
AMOUNT FINANCED.....\$.....
Add--FINANCE CHARGE FOR.....MOS. TERM \$.....
RECORDING FEE.....\$ 3.00
TOTAL DEFERRED PAYMENTS.....\$.....

It is agreed and declared that the terms and conditions set forth on the reverse hereof to be part of this contract and binding upon the parties hereto. The Purchaser acknowledges receipt from Vendor of a true copy of this agreement. The value placed on the trade-in has been determined by the parties acting in good faith.

SIGNED IN
DUPLICATE at.....on.....19.....
 (Place where contract actually signed)
Vendor sign
Trade Name
By.....
30-087-11-REV. 1/63 (Signature and Title of Authorized Official)

(Date)
(Purchaser
sign here)
(Co-Signer)
C.N. 8-B.C.

BRANCH	DEALER	ACCOUNT NUMBER
--------	--------	----------------

Only use this space for other than equal monthly instalments	SCHEDULE OF PAYMENTS	
	NEGOTIABLE INSTRUMENT	
FOR VALUE RECEIVED I promise to pay to the order of:		\$.....At.....Date.....19..... (PLACE WHERE NOTE ACTUALLY SIGNED)
the sum of.....		(VENDOR'S NAME HERE)
at the office of INDUSTRIAL ACCEPTANCE CORPORATION LIMITED in the city of.....		each on the same day of each successive month, the first instalment to be payable.....19.....
in monthly instalments of \$.....		the final instalment to be the amount remaining unpaid; OR, in instalments as set out in the Schedule of Payments hereunder; with interest thereon after maturity at the rate of 12% per annum. A negotiable promissory note has been given by Purchaser to Vendor as evidence of, but not in payment for, said Total Deferred Payments.
if unpaid at maturity, shall bear interest at the rate of TWELVE PER CENT per annum, from the date of maturity and upon default in payment of any instalment upon the due date thereof all remaining instalments shall forthwith become due and payable without notice.		Purchaser sign here (Co-Signer)

CONDITIONS OF SALE CONTRACT

The following terms and conditions are part of the contract set forth on the reverse side hereof and are binding upon the parties thereto.

1. Title to, property in and ownership of said goods shall remain in Vendor at Purchaser's risk until all amounts due hereunder, or any renewals or extensions hereof or of said note, or under any judgment secured, are paid in cash. Purchaser shall not permit said goods to become or remain subject to any lien or charge.
2. Purchaser agrees to insure said goods against fire and hereby assigns all insurance proceeds to Industrial Acceptance Corporation Limited.
3. Time is of the essence of this agreement and if Purchaser defaults hereunder or violates any term hereof or goes into bankruptcy, or if said goods be substantially damaged or destroyed or seized under any judicial process or for rent or confiscated, or if Vendor or his assigns feel unsafe or insecure, all remaining instalments shall, without notice, become due and payable and Vendor may forthwith take possession of said goods and for such purposes may enter premises without notice or demand and without legal process.
4. If said goods come into the possession of Vendor through repossession, voluntary surrender thereof by Purchaser, or otherwise, all payments previously made shall remain the property of Vendor as liquidated damages and not as a penalty and Vendor may house or store said goods and repair or recondition the same and resell the same in such manner and for such amount and upon terms as Vendor deems proper and Vendor may be a purchaser at such sale; upon such sale Vendor may accept other goods as part payment of the sale price, but the undersigned Purchaser shall be entitled to be credited only with the actual proceeds when realized and received in cash through the sale of such trade-in after deduction of all expenses, charges and commissions in connection

with said goods and in connection with the repairing and re-sale of such trade-in. Purchaser shall be liable for any deficiency. Any surplus shall be repaid to Purchaser. Purchaser waives all claims for damages arising out of the re-possession, removal or resale of said goods.

5. Purchaser acknowledges that this agreement constitutes the entire contract and that there are no representations, warranties, or conditions, expressed or implied, statutory or otherwise, other than as contained herein. Purchaser warrants that the information given in the Purchaser's Statement on the reverse side hereof is true.

6. Purchaser takes notice that this agreement, together with Vendor's title to, property in and ownership of said goods and said note are to be forthwith assigned and negotiated by Vendor to Industrial Acceptance Corporation Limited, and that said Corporation shall be entitled to all of the rights of Vendor free from all equities existing between Vendor and Purchaser. Purchaser hereby accepts notice of such transfer and further accepts notice that Vendor is not an agent of said Corporation for any purpose and that said Corporation will accept no evidence of payment other than its official receipt. If this contract or said note is placed in the hands of a solicitor to enforce any right thereunder, there shall be added to the outstanding balance 15% of such balance, payable forthwith, to compensate for increased administrative costs.

7. Save as aforesaid, this agreement shall apply to, enure to the benefit of, and bind the heirs, executors, administrators, successors and assigns of the Purchaser and Vendor.

VENDOR'S ASSIGNMENT

FOR VALUE RECEIVED the undersigned does hereby sell, assign and transfer to Industrial Acceptance Corporation Limited his right, title, and interest in and to the within contract and promissory note therein referred to. Vendor does also hereby sell to said Corporation the goods referred to in the within contract, subject to the rights of the Purchaser as set out therein.

Vendor warrants that said goods are completely and accurately described in said contract and that they are new and unused (unless otherwise stated in said contract) and that the portion of the down payment described as cash was in fact paid by Purchaser in cash and not its equivalent and that no part thereof was loaned to Purchaser by Vendor.

Vendor agrees to indemnify and save harmless the said Corporation from any loss concerning or arising out of the within contract and said promissory note and upon default by the Purchaser agrees to pay Corporation upon demand an amount equal to such loss whether or not at the time of demand Corporation shall have exercised all or any of its remedies against the Purchaser; Corporation's loss for the purpose of this indemnity shall be the entire amount unpaid under the within contract and said promissory note, and any deficiency arising out of the repossession and resale of said goods as provided therein. Vendor agrees that his liability hereunder shall not be affected by any settlement, extension of credit, or variation of terms of said contract, or additional security taken by Corporation, not by any negligence on the part of the Corporation in asserting its rights, nor by reason of any loss, depreciation of or damage to said goods, nor any omission in filing or recording said contract or any renewal thereof, nor the inability of the Corporation by reason of law or otherwise to enforce, nor the termination for any cause whatsoever of any right of the Corporation against Purchaser, and that nothing but full payment in cash to the Corporation of the amount owing by Purchaser shall release Vendor from his liability hereunder.

If said goods be repossessed Vendor agrees to store same safely for the account of said Corporation without charge and Vendor agrees not to sell or use said goods except upon written instructions from the Corporation. In the event of resale, all monies, goods and securities paid or delivered on such resale shall be the property of said Corporation and Vendor shall hold same in trust at Vendor's risk and shall promptly pay over and deliver same to the Corporation.

Upon payment by the undersigned to Industrial Acceptance Corporation Limited of the amount secured by the within contract, the within contract and all of the right, title and interest of Industrial Acceptance Corporation Limited in and to the said contract and the property therein described shall be forthwith automatically reassigned to the undersigned without the necessity of any formal or other assignment being executed and delivered by Industrial Acceptance Corporation Limited.

IN WITNESS WHEREOF said Vendor has subscribed his name this..... day of 19.....

(Vendor
Sign Trade
Name here)

By.....
(Signature and Title of Authorized Official)

Pay to the order of Industrial Acceptance Corporation Limited, presentment, protest and notice of dishonor and of protest of the within note being hereby waived.

The undersigned endorser(s) hereby expressly waive(s) presentment, protest and notice of dishonor and of protest of the within note.

.....
(Additional Endorser(s))

.....
(Address)

(Vendor
Sign Trade
Name here)

By.....
(Signature and Title of Authorized Official)

PROMISSORY NOTE

HOUSEHOLD FINANCE

Corporation of Canada

Suite 107

219 Twenty Second St. East - Phone OL. 2-7212

SASKATOON, SASKATCHEWAN

LOAN No.

BORROWERS (NAMES AND ADDRESSES):

DATE YOU PAY EACH MONTH

DATE OF THIS NOTE:

FIRST PAYMENT DUE DATE:

OTHERS:
SAME DAY OF
EACH MONTH

FINAL PAYMENT DUE DATE:

PRINCIPAL AMOUNT
OF NOTE AND ACTUAL
AMOUNT OF LOAN \$

PRINCIPAL AND COST OF LOAN

PAYABLE IN MONTHLY PAYMENTS \$

MONTHLY PAYMENTS
(EXCEPT FINAL)

FINAL PAYMENT
EQUAL IN ANY CASE TO
UNPAID PRINCIPAL
AND COST OF LOAN

CREDIT LIFE
INSURANCE CHARGE
\$

AGREED RATE
OF COST OF LOAN
INCLUDING INTEREST:

To date last payment falls due: 2% PER MONTH (24% PER ANNUM PAYABLE MONTHLY) ON ANY PART OF THE UNPAID PRINCIPAL BALANCE NOT EXCEEDING \$300; 1% PER MONTH (12% PER ANNUM PAYABLE MONTHLY) ON ANY PART THEREOF EXCEEDING \$300 AND NOT EXCEEDING \$1,000; AND 1/4 OF 1% PER MONTH (6% PER ANNUM PAYABLE MONTHLY) ON ANY REMAINDER THEREOF.
After last payment falls due: 1% PER MONTH (12% PER ANNUM PAYABLE MONTHLY) ON ENTIRE UNPAID PRINCIPAL BALANCE UNTIL FULLY PAID.

In consideration of a loan made by Household Finance Corporation of Canada at its above office in the principal amount hereof, the undersigned jointly and severally promise to pay to the order of said corporation at its said office the principal amount together with cost of loan at the above rate, as well after as before maturity until fully paid. Where the holder hereof obtains judgment hereon and which is enforceable in the province in which judgment is obtained permit, cost of loan at the agreed rate shall be paid on the unpaid principal amount of loan forming a part of the judgment and which is outstanding from time to time.

Payment of principal and cost of loan shall be made in consecutive monthly payments as above indicated beginning on the stated due date for the first payment and continuing on the same day of each succeeding month to and including the stated due date for the final payment. Payment may be made in advance in any amount without notice, bonus or penalty on any date in which a payment falls due. Every payment made hereon whether made before, at or after it shall have become due shall be applied first to cost of loan computed in full at said rate to the date of such payment and the remainder to principal. The word "cost" shall have the meaning specified in Section 2(a) of the Small Loans Act, RSC 1952 chap. 251 as amended.

Default in any payment of said principal or cost of loan, or any part of either, may be discussed with any present or future employer and shall, at the option of the holder hereof exercisable at any time and without notice or demand, render the entire unpaid balance of said principal and cost of loan accrued thereon at once due and payable.

Extension of time of payment of all or any part of the amount owing hereon at any time or times or failure of the holder hereof to enforce any of its rights or remedies hereunder or under any instrument securing this loan or any release or surrender of any property shall not release any party hereto or surety, endorser or guarantor hereof and shall not constitute a waiver of the right of the holder hereof to enforce such rights and remedies thereafter.

The parties hereto and sureties, endorsers and guarantors hereby severally waive demand and presentment for payment, notice of non-payment, protest and notice of protest of this note.

Witness:

(Witness)

(Witness)

EATON'S REVOLVING CREDIT PLAN

Agreement

ACCOUNT No.....

BETWEEN: **THE T. EATON CO** hereinafter called the "Company"
SASKATOON CANADA LIMITED CANADA

and.....Purchaser

.....Purchaser

.....Address

.....Town or City

In consideration of a down payment of \$.....made this day by me to the Company,

the Company agrees,

1. to open a Revolving Credit Account in my name and extend credit to me up to a maximum amount of \$.....:

2. to charge to said account all goods (except Provisions) and services supplied by it from time to time to the above address or signed for by me or by the person or persons authorized by me, but such charges thereto shall not exceed the said maximum credit until I have arranged with the Company for an increased maximum credit:

I agree,

1. that the Company shall have the right to cancel this agreement and credit and refund my down payment to me at any time prior to the first delivery of goods or performance of any services hereunder without cause and liability therefor;

2. that the Company shall debit my said account with a monthly service charge, until further notice to me, of 1½% of the balance at the end of the previous month;

3. to pay to the Company for credit to this account the sum of \$....., being one-sixth of the said maximum credit, on or before the.....day of each month hereafter until the account has been paid in full or a lesser final amount to discharge my indebtedness in full hereunder;

4. If so requested by the Company, to execute and deliver to it on its form a conditional sale contract for any specific purchase by me hereunder before requiring delivery of such purchase;

5. that the Company can cancel this agreement if at any time my credit standing becomes impaired and unsatisfactory to the Company;

6. that on my default in making any payment hereunder or on the cancellation of this agreement by the Company, the full balance owing hereunder shall forthwith become due and payable, and my said account shall be closed for further purchases until expressly reinstated by the Company.

7. that the identification cards for the said account supplied by the Company to me or the persons authorized by me to sign shall be presented if so required when shopping, and on demand such cards shall be returned to the Company.

I hereby acknowledge receipt of a copy of this agreement.

DATED at Saskatoon this.....day of.....19.....

Witness.....

Purchaser's
Signature.....

Authorized
Signature.....

Purchaser's
Signature.....

DATE.....		ACCOUNT NUMBER.....	
SIGNATURE.....			
SIGNATURE.....			
RESIDENCE PHONE.....		MONTHLY PAYMENTS.....	
HOW LONG.....		NUMBER MONTHS.....	
DATE.....		DATE.....	
AMOUNT OF CREDIT.....		NEXT OF KIN.....	
HOW LONG.....		ADDRESS.....	
POSITION.....		LANDLORD'S NAME.....	
BUSINESS PHONE.....		ADDRESS.....	
BRANCH.....		ADDRESS.....	
ADDRESS.....		C.A. NO.....	
D.A. NO.....		B.F. NO.....	
ACCOUNTS WITH OTHER STORES.....		PHONE.....	
CHECKED DIRECTORY.....		CHECKED REFERENCE FILE.....	
DATE REQUESTED C.R.....		DATE ADVISED CUSTOMER.....	
EMPLOYEE'S ALLOWANCE O.K.....		TAKEN BY.....	
IDENTIFICATION.....		APPROVED BY.....	
T. EATON CO CANADA LIMITED		T. EATON CO CANADA LIMITED	



Second Session—Twenty-sixth Parliament
1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 10

TUESDAY, NOVEMBER 17, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

Retail Council of Canada: Mr. A. J. McKichan, General Manager; Mr. Nels Liston, Member of the Association; Mr. Paul Harrison, Member of the Association; Mr. J. W. Erwin, Member of the Association; Mr. W. G. Upshall, Member of the Association; Mr. H. A. Simmons, Member of the Association.

APPENDICES

- H—Brief from the Retail Council of Canada
- I—Chart from Eatons of Canada
- J—Chart from the Hudson's Bay Company
- K—Comparison charges made by two different Companies for a \$500.00 purchase paid \$25.00 a month
- L—Supplementary Brief from Dr. Jacob S. Ziegel, Association Professor of Law, University of Saskatchewan

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll
and
Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard	Lang	Smith (<i>Queens-</i>
Croll	McGrand	<i>Shelburne</i>)
Gershaw	Robertson (<i>Kenora-</i>	Stambaugh
Hollett	<i>Rainy River</i>)	Thorvaldson
Irvine		Vaillancourt—12.

Messrs.

Basford	Greene	Matte
Bell	Grégoire	McCutcheon
Cashin	Hales	Nasserden
Chrétien	Irvine	Orlikow
Clancy	Jewett (Miss)	Otto
Côté (<i>Longueuil</i>)	Macdonald	Ryan
Crossman	Mandziuk	Scott
Drouin	Marcoux	Vincent—24.

(Quorum 7)

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LEON J. RAYMOND,

Clerk of the House of Commons.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof.”

LEON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LEON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LEON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LEON J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act.)

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, November 17th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Irvine and Smith (*Queens-Shelburne*), and

House of Commons: Messrs, Greene (*Joint Chairman*), Bell, Chrétien, Crossman, Macdonald, Mandziuk, McCutcheon, Nasserden, Orlikow, Otto and Scott—14.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Macdonald, it was Resolved to print the brief submitted by the Retail Council of Canada as appendix H to these proceedings.

The following witnesses were heard:

Retail Council of Canada: Mr. A. J. McKichan, General Manager, Mr. Nels Liston, Member of the Association, Mr. Paul Harrison, Member of the Association, Mr. J. W. Erwin, Member of the Association, Mr. W. G. Upshall, Member of the Association, Mr. H. A. Simmons, Member of the Association.

The following documents were tabled: Specimen Conduct of Retail Instalment Account. Expression of Credit Charges as Simple Interest Rates in Relation to Original or Single Transactions. Cyclical Accounts.

On Motion duly put it was Resolved to print the charts submitted by Eaton's of Canada and the Hudson's Bay Company as appendices I and J to these proceedings.

On Motion duly put it was Resolved to print the following as appendix K: Comparative charges made by two different Companies for a \$500.00 purchase paid \$25.00 a month.

A supplementary brief submitted by Dr. Jacob S. Ziegel, Associate Professor of Law, University of Saskatchewan was ordered to be printed as appendix L to these proceedings.

At 12.30 p.m. the Committee adjourned to meet *In Camera* Tuesday next, November 24th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, November 17, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10:00 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: We have a quorum. I call the meeting to order.

Before we start on the business scheduled for this morning, we have scheduled for next week a meeting with the Ontario Select Committee on Consumer Credit. They have asked for a meeting with us, and the Steering Committee met and decided that it would be advisable, in the circumstances, to extend an invitation to the other provinces.

Mr. MACDONALD: Are we going down there, or are they coming up here?

Co-Chairman Senator CROLL: No, they are coming here.

We sent them this communication:

The Ontario Select Committee on Consumer Credit has requested a meeting with the Joint Committee of the Senate and House of Commons on Consumer Credit for exploratory discussions of problems of mutual concern STOP The meeting has been arranged for Tuesday, November 24 at 10.00 a.m. in Ottawa STOP The meeting will take place in Camera STOP It has been suggested that your province might be interested and we would welcome your participation in the discussions STOP Please advise if you decide to attend.

Some of the provinces have indicated they will be represented at the meeting on Tuesday next.

Motion adopted that the brief be printed in the report of the proceedings.
(See appendix "H")

Co-Chairman Senator CROLL: We have with us this morning the representatives of the Retail Council of Canada. Sitting on Mr. Green's right is Mr. A. J. McKichan, General Manager, Retail Council of Canada. He will introduce the personnel with him.

Mr. A. J. McKichan, General Manager, Retail Council of Canada: Mr. Chairmen, honourable senators and members: on my immediate right is Mr. Nels Liston, General Credit Manager of Simpsons-Sears Limited. On his right is Mr. Paul Harrison who is Regional Comptroller of the Hudson's Bay Company, the Saskatchewan, Manitoba and Ontario region. On his right is Mr. J. W. Erwin, who is Company Chief Accountant responsible for Credit at Corporate level in the T. Eaton Co. Limited. On his right is Mr. W. G. Upshall, Company Co-Ordinator, Contract Credit, the T. Eaton Co. Limited. On his right is Mr. H. A. Simmons, Credit Manager, Gordon Mackay & Company Limited, and Credit Manager, Walker Stores.

Co-Chairman Senator CROLL: Mr. McKichan will read a summary which will, I think, contain all the recommendations that you will find in your brief in the yellow pages. Will you please hold your questioning during the time he is reading the summary. Then we thought we would give Mr. Urie the opportunity to question, followed by members of the committee. We hope that in the initial stages you will limit yourselves to five minutes, to give everybody an opportunity to ask questions, and then you will have another go at them later, I hope.

Go ahead, Mr. McKichan.

Mr. McKICHAN: Thank you, Mr. Chairman.

Honourable senators and members, I should like to say first of all that we in the Retail Council are very pleased to have this opportunity of appearing before you. We feel there have been a considerable number of misapprehensions about the position of the retail industry in regard to these problems, and we hope that by appearing before you we can at least attempt to dispel some of them.

Perhaps I may illustrate the problems with which we are faced by referring to an article appearing in the *Ottawa Journal* last night, in which it was said, in part:

Retailer and credit merchants on one side are fighting against complete disclosure.irate consumers, on the other side, are applying increased pressure for more protection.

The position of the Council, Mr. Chairman, is very far from that which is outlined in the paper. We are very much in favour of disclosure but we are in favour of disclosure in the manner in which it can be done keeping in mind the structure of the present credit accounts and the manner which provides the most meaningful information to the consumer. This, in short, is the tenor of our brief.

Retail Council of Canada is a national trade association, whose members perform some 30 per cent in volume of Canada's retail 'store' trade. The Council was formed for the purpose of representing its members to governments at the provincial and federal levels, and generally to promote the interests of the trade in Canada.

The Council welcomes the opportunity of appearing before this committee because the subject of the committee's study is of vital importance to the health of the retail trade and, by extension, to the economy as a whole.

The Council concurs in those parts of the recent report of the Royal Commission on Banking and Finance, which concluded that most Canadians "have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living." The Council believes that the current levels of consumer borrowings should not arouse concern. It is our view that the Royal Commission in making recommendations regarding the disclosure of simple interest rates on all types of credit account including cyclical accounts had not given sufficient consideration to the problems involved. In any event this subject was only on the periphery of its area of inquiry. The Council does not concur with that part of the commission's report.

A recent decision of the Supreme Court of Canada, Attorney-General of Ontario vs. Barrfried (1963) S.C.R. 575, testing the validity of the Ontario Unconscionable Transactions Act, appeared to place the primary responsibility for the regulation of contracts covering the financing of the sale of consumer goods in the hands of the provincial governments. The Council is aware that the committee is seized with the constitutional problem.

The two most important types of contract employed by our member companies granting credit services are quite different in nature from those used by other credit granters. And I do want to emphasize this point, that we feel that the types of credit common in industry are quite different in nature and scope from that which other lenders provide and it is a truism to say that merchants are in the business of selling goods and not of selling credit. In the view of the Council these types are incapable of being classified with these other types of account. Both types of account, referred to as "revolving" or "cyclical" plans and "budget" or "easy payment" plans, contemplate that a number of purchases will be made on the account, and in fact, this expectation is borne out in the great majority of accounts opened.

Before either type of account is opened, care is taken to ensure that the customer is aware of his responsibilities and will be capable of assuming them. Close supervision of the customer's use of his account continues during the duration of its operation.

Control of the amount borrowed and the customer's mode of operation of the account is firmly exercised by the retailer. Bad debt losses are minimal. We feel we should perhaps during the course of the evidence give some demonstration of the small proportion of accounts which are in fact affected by these circumstances.

Retailers state service charges on the basis of a dollar charge on the monthly amount outstanding or a percentage charge on the monthly amount outstanding. They believe that this system of stating charges provides their customers with meaningful information. It is not practicable or possible to quote simple annual interest rates on purchases made on cyclical or 'add-on' types of account. The impracticability occurs because charges vary with the amount of the outstanding balance and it is impossible to forecast the customer's future buying and payment habits. The purchaser can affect the amount of the charges by the date and the amount of his purchases, the time he chooses to make his payments and the size of his payments. With your permission because of the significance of the next couple of paragraphs I would like to read them from the text, if I may. I am turning now to page 14 of the text, paragraph 34.

It would not be possible to arrive at any accurate determination of the future service charges, to state the maturity of the credit, or to establish the effective rate of the charges either at the time of a purchase or at the beginning of any credit period. Such calculations would have to forecast the purchaser's future buying and payment habits, which at that time would be equally unknown to both the seller and the purchaser. The purchaser can affect the amount of the charges at the effective rate, by the date and the amount of his purchases, the time he chooses to make his payments, or the size of his payments. For example, purchases between billing dates would appear in the next succeeding statement as total purchases and become part of the unpaid balance upon which charges are made. The purchaser can extend his period of credit by buying immediately after a billing date, reduce his service charges by increasing his next payment, and reduce the effective rate of the charges, (a) by making his payment late in the month, just prior to the date of the billing statement in which his purchases appear in the unpaid balance and/or (b) by buying more merchandise bringing him into a bracket where the effective rate of the service charge is lower. Even when a service charge at a flat rate of $1\frac{1}{2}$ per cent per month on outstanding balances is in effect, it is by no means true that a customer will pay 18 per cent per annum on his purchases. The effective rate would be within a wide range of percentage. Normally, as has been mentioned, retailers quote credit charges on the basis of either a dollar figure per month, or a percentage figure per month. It is not possible, simply by having regard to the balance outstanding at any time and the

service charges made in respect of it for any month, to use these figures to devise a simple annual interest rate.

The plans described above are designed to provide the purchaser with the flexibility and convenience of credit buying. From an operational standpoint, a sales clerk cannot work out service charges on individual purchases, so the plans relate service charges to unpaid periodic balances. It cannot be assumed that payments will be made in conformance with a prescribed schedule, nor can it be known how the purchaser will choose to operate his account.

Certain formulae and other devices have been suggested for use in converting credit service charges into simple annual interest rates. None of these devices can provide accurate results when applied to cyclical type accounts. The Council has had experience in explaining the practical difficulties which would be encountered in attempting to apply simple interest rate disclosure provisions to cyclical and budget accounts to various committees of provincial legislatures and other interested parties. The Council has found that problems can best be illustrated by some practical demonstrations of how various unpredictables prevent any advance determination of the interest rate equivalents which customers will pay. There will be filed with the committee exhibits which demonstrate the problem.

Mr. MACDONALD: On a question of privilege. The delegate has already filed a brief in fairly considerable detail but, nevertheless, in simple terms. They now come and file a supplementary brief of 10 additional pages with some fairly closely written and typed calculations. I wonder if the committee should be subjected to this. This is the sort of thing we would like to study in advance. This seems to me to be a not too subtle way of slipping in some additional information or attempting to confuse the committee at the last minute.

Mr. MANDZIUK: On this point of order I think it is for the committee to hear the representatives and hear their arguments. It is the duty of the committee to study these details afterwards before making our report. We are not here to argue with the witnesses.

Mr. MACDONALD: We are here to ask questions on the material submitted to us. This is a 10-page supplementary brief with very close calculations. How can we ask questions on that? I am not objecting to them, but all this material should have come before us when the other document was submitted.

Mr. BELL: But they are trying to make it up to date.

Mr. MACDONALD: They delivered the other one last week and this one last night.

Mr. SCOTT: I want to support the point of privilege. I think we indicated when starting our hearings that we wanted all the delegations to file their material not later than a week before their appearance before us. This is very detailed and very complicated and it does require a considerable amount of study before we could make any cross-examination on it. Could we ask that perhaps we might have an opportunity of studying it and then asking questions?

Co-Chairman Senator CROLL: We have the committee here and this is additional information and it is up to us to use it the best way we can this morning.

Mr. McKICHAN: It was thought this information would be of interest to the committee's technical staff. We did not file it at the time the brief was prepared for two reasons. First, we had been aware of the recent appearance of the Canadian Chamber of Commerce before the committee and we attempted to illustrate in the exhibits we filed some of the problems which became apparent before the committee. The second reason we deferred filing it until now was that the original intention had been to confine the illustrations to a few

examples, but we found in doing this that it was much more meaningful to express the problems in words than in figures.

Co-Chairman Senator CROLL: But of course the technical staff would not have much opportunity of studying this when it was delivered this morning.

Mr. McKICHAN: I realize that and I apologise.

Mr. SCOTT: Would the witnesses be prepared, if we found it necessary, to re-attend?

Mr. McKICHAN: We would be very happy to do that, Mr. Chairman. Proceeding with the digest or the summation:

None of the formulae suggested for use in converting credit service charges into simple annual interest rates can be applied to cyclical accounts. In no jurisdiction within Canada or the United States has it been possible to devise legislation which would enable simple annual interest rates to be quoted on these types of accounts. It has been demonstrated to the Government of Manitoba, Alberta and many of the states in the United States that application of such legislation is not possible. These provinces and states have accepted the position. Legislation which did require the expression of simple annual interest rates on all types of credit account would require retailers to abandon cyclical-type accounts and probably bring about severe repercussions in the national economy.

Furthermore, no effective means has yet been suggested of preventing vendors from concealing part of the price of credit in the price for the article sold.

In its main submission, the council quotes the recommendations for the protection of purchasers which it made to the Ontario Select Committee on Consumer Credit.

The council and its members will be very willing to co-operate with the committee or its consultants in any further studies they wish to undertake. All of which we respectfully submit, Mr. Chairman.

Co-Chairman Mr. GREENE: Thank you. I think it would be advisable to allow our counsel to have the first right of examination, if that meets with the approval of the committee. After he has asked all the questions he wishes to ask them members of the committee may put their questions to the witnesses.

Mr. URIE: Mr. McKichan, I will address my questions to you, and if you wish to have them answered by any of your colleagues then please feel free to do that. The purpose of this examination is to elucidate the brief, and to obtain more information from it. It is not, as somebody said at a previous hearing, to crucify anybody.

As I read your brief it seems that there are four main types of account to which you make reference. There are the 30 days charge account, instalment accounts without add-ons, cyclical accounts, and budget or easy payment accounts; is that correct?

Mr. McKICHAN: That is correct, sir.

Mr. URIE: Could you give the members of the committee some idea of the percentage of total credit in each category among your membership?

Mr. McKICHAN: We do not have that information on a consolidated basis. I think some of the members of the delegation could give you some information on this regarding their own types of account.

Mr. URIE: Perhaps Mr. Liston could answer that question.

Mr. LISTON: I would say that about 85 per cent of our business would be on cyclical accounts, and the other 15 per cent on instalment accounts. This is a rough estimate.

Mr. URIE: By "instalment accounts" you do not mean the 30 day charge account or the—

Mr. LISTON: We do not have the 30 day charge account as such. Somebody else may have.

Mr. URIE: Has anybody else any information with respect to their own particular business?

Mr. HARRISON: We do about 50 per cent of our credit business on the cyclical type of account, and 50 per cent on the 30 day account.

Mr. UPSHALL: We can confirm that figure in relation to our own company—50 per cent on 30 day accounts and 50 per cent on cyclical accounts.

Mr. SIMMONS: Our accounts are 100 per cent cyclical.

Mr. URIE: What is your company, sir?

Mr. SIMMONS: Walker stores.

Mr. URIE: And what company does the previous gentleman represent?

Mr. UPSHALL: The T. Eaton Company.

Mr. URIE: Is the contract, a copy of which you have included at page 9 of your brief, a typical contract for a cyclical account?

Mr. McKICHAN: We believe this is fairly typical of all cyclical accounts.

Mr. URIE: So far as the 30-day charge account is concerned, I notice that it says that payment must be made within 15 days of the statement date. Is there any charge made after that date?

Mr. SIMMONS: The charge is not made until the end of the month, which is 30 days from the previous billing date.

Mr. URIE: What is the charge thereafter?

Mr. SIMMONS: The charge is the monthly service charge that is shown in the example in the brief.

Mr. URIE: That is, down in the lower portion?

Mr. SIMMONS: Yes.

Mr. URIE: In other words, if a person owed \$100 the monthly charge after the 30-day period would be \$1.45.

Mr. SIMMONS: That is right, sir.

Mr. URIE: Is this also true in respect of the individual accounts with no add-ons to which reference is made in the brief?

Mr. SIMMONS: We have found in our business that there are very few accounts that do not add on at one time or another during the life of the account.

Mr. URIE: You said your accounts were 10 per cent cyclical.

Mr. SIMMONS: That is right.

Mr. URIE: In respect of the 30-day charge accounts only is there any reason why in your view that could not be expressed as a percentage—why the rate of charge could not be expressed as a percentage?

Mr. McKICHAN: Sir, there is no charge on a 30-day account.

Mr. URIE: After 30 days there is.

Mr. McKICHAN: You were referring to the 30-day account under this contract?

Mr. URIE: That is right.

Mr. McKICHAN: I think Mr. Simmons could answer that question.

Mr. URIE: If a person does not pay his account within 30 days you charge him a service charge of \$1.45 on an outstanding balance of \$100. Is there any reason why that cannot be expressed as a percentage—as either simple annual interest or simple monthly interest?

Mr. SIMMONS: We think this would be very hard to do because first we do not know when the customer is paying.

Mr. URIE: You know after 30 days, and you then charge him \$1.45 on a balance of \$100.

Mr. SIMMONS: Yes.

Mr. URIE: That amount of \$1.45 cannot be expressed as a percentage at the same time when you notify him that you are charging him the \$1.45?

Mr. SIMMONS: I would say that at that point it could be expressed as a percentage charge, but I do not know how meaningful this would be.

Mr. URIE: We will leave that out of the question for the moment.

Mr. McKICHAN: I think on either a cyclical account or an easy payment type of account the first purchase could be calculated and a calculation of a rate of simple annual interest could be made. It is a practical possibility, but the value of whether one should do it or not is another question.

Mr. URIE: That is all I want to know. With respect to the cyclical account you show on the contract the service charge on the various balances from time to time. Who calculates those amounts? How is the amount of charge determined? Take the figure of \$1.45 on an outstanding balance of \$100. How is that amount determined?

Mr. McKICHAN: It is my understanding that the store in working out its service charges keeps two things in mind. It keeps in mind the cost of the service it has to provide, and it keeps in mind the rates which its competition is charging. After making a proper consideration of these two factors it works out a schedule of charges.

Mr. URIE: Then, Mr. McKichan, there are certain elements that are embodied in that particular charge. I got into this question with Mr. Liston on a previous occasion, so he may anticipate what I am about to ask. In these accounts there are constant elements and variable elements. Would you concede that that is the case?

Mr. McKICHAN: Yes.

Mr. URIE: Would you advise the members of the committee what the constant elements might be?

Mr. McKICHAN: I think it is too sweeping a statement to say that there are in one type of account constant elements, and in the other types non-constant or variable elements, because I think even the elements within a charge which appear to be constant do not in fact have a completely constant characteristic. The element within a charge that appears to be constant is the servicing of the account—the sending out of the statements and the sending out—

Mr. URIE: The opening of the account and the investigation, and so on.

Mr. McKICHAN: Yes, but here even this part of the account is variable because, first of all, the investigation of the credit risk is obviously going to be a considerably more thorough one when a large initial purchase, or a large purchase within the conduct of the account, is contemplated. Secondly, the larger the balance then the more likely it is that there will be numerous transactions on the account. So, to this extent, the constant element is not as constant as one might think.

Mr. URIE: Assuming that that is the case, that there are certain things that are reasonably constant, such as the opening of the account and the investigation that takes place—

Mr. McKICHAN: Plus the monthly billing.

Mr. URIE: That is right. Is there an element in there for the use of the money?

Mr. McKICHAN: There is certainly an element in there for the forbearance in seeking the money again. That is certainly represented there.

Mr. URIE: And that would be among the variables?

Mr. McKICHAN: That is among the variables, yes.

Mr. URIE: I refer you to paragraph 20 on page 8 of your brief, where you say in the second sentence:

Proportionately the charges are higher for small than for large outstanding balances. This pattern of charges reflects an attempt to introduce a reasonable relationship between the costs which retailers experience in providing a credit service and the charges which they make for this service.

Would you explain those two sentences?

Mr. McKICHAN: We mean there that generally speaking the charge does not bear a fixed relationship to the credit which is outstanding at any one time. This is because it is much more expensive to extend credit on a small balance than it is on a large balance on a percentage basis. The reason for this is because the service elements comprise a much bigger part of the cost than they do on a large balance, but the relationship is not completely direct because I think it is true to say that most retailers to some extent subsidize the operation of their small balances by the operation of the large balances.

Mr. URIE: Then, if what you have said is true, and if what is said in the brief is true, why do not the monthly service charges decrease. I am referring to the monthly service charges shown on page 9. Take, by way of example, a \$25 item. The service charge per month is 30¢. If it were a \$50 item, the service charge would be 75¢. I would have thought that, at the very least, the service charge would have been 60¢, or double, rather than 75¢.

Mr. McKICHAN: I think the answer in this particular instance is that this particular company has what is known as a junior departmental store, dealing largely in soft goods, and they do not anticipate having very much higher balances than these, so the degree of difference in the cost of operating the accounts, while existing, is not as significant as if they were carrying balances of \$700 or \$800. In the case of companies which anticipate larger balances because they are selling a different type of merchandise there would be considerable difference.

Mr. URIE: There would be a decrease?

Mr. McKICHAN: Yes.

Mr. URIE: But that is not the case in the \$200 item. For example, here it is \$2.70 which is the monthly interest charge. For eight times \$25, it should be \$2.40. For a \$250 balance it would be ten times 30¢, it should be \$3. Is that the pattern throughout the industry?

Mr. McKICHAN: I think it is true to say that the pattern is not exact throughout the industry. There would be different break points where the charges started reducing in relation to the balance.

Mr. URIE: Does this not indicate to you that the amount earned on the money increases as the balance is greater? In other words, the amount charged is greater with the larger amounts than it is with the smaller amounts, because the constants—

Mr. McKICHAN: This would be true, but I think it is to some extent unrealistic to try to segregate the elements in the charge and try to segregate the charges made for small balances from large balances, because every customer,

during the pattern of his operating account, will have both large balances and small balances, in all probability.

Mr. URIE: I was interested in these remarks in the light of your statement in paragraph 20.

Mr. MCKICHAN: I think that a better illustration of the manner in which the service charge diminishes in relation to the balance can be given in relation to the Hudson Bay Company, who anticipate having larger balances. Perhaps Mr. Harrison can elucidate that point.

Mr. HARRISON: On balances up to \$100 there is a service charge of $1\frac{1}{2}$ per cent. On balances between \$100 and \$200 it is 1.4 per cent; between \$200 and \$250 it is 1.3; between \$250 and \$1,500 it is 1.2 and for \$1,500 and over it is 1 per cent.

Mr. URIE: Are these percentages shown on your statement as given to your customer?

Mr. HARRISON: They are shown on a supplementary document given to the customer.

Mr. URIE: For each item—so that at any particular month the customer knows it is between \$300 and \$500?

Mr. HARRISON: When the customer opens the account she is given this information.

Mr. URIE: What happens if she buys something in the meantime? It adds to the account?

Mr. HARRISON: This is based on the monthly net balance of the account, the carry forward each month.

Mr. URIE: Do I take it that, each month, in addition to the dollar amount which that woman will have to pay, upon receipt of the statement she is given also the percentage of service charges?

Mr. HARRISON: No, she is not. She is given this rate initially.

Mr. URIE: You know what that percentage is?

Mr. HARRISON: Yes.

Mr. URIE: But you do not give it to her?

Mr. HARRISON: The customer receives it when she opens the account initially, when she makes application for the amount, she is told what the percentage rate will be on the outstanding balances, so she can work this out by multiplying this percentage rate by whatever carry forward balance there is from the preceding month.

Mr. URIE: Would it be fair to say that if you had a similar service charge to that given on page 9 that, in addition to the monthly service charge now shown in dollars, there would be an extra figure showing the percentage, after each monthly service charge?

Mr. HARRISON: No.

Mr. URIE: I see.

Mr. HARRISON: There could be. We merely give the customer the information when she opens the account, indicating or defining the service charge rate. We show her the dollar amount, similar to this example.

Mr. URIE: But there could be that extra column and at the same time you, the retailer, know what your service charge percentage is?

Mr. HARRISON: Yes.

Mr. URIE: When the billing clerk prepares the bill for submission to the customer, presumably she puts down the amount of the service charge and then the month. Now, where does she acquire the information? Is it from a chart?

Mr. HARRISON: Yes.

Mr. URIE: I see. And that is in relation to your set costs or 1.3 per cent service charge, or whatever it may be?

Mr. HARRISON: That is correct.

Mr. McKICHAN: I would emphasize, Mr. Urie, that we very well know that many of our companies do express their service charge on a cyclical type of account as a percentage in a month, and this is very different from a very simple annual interest.

Mr. URIE: I know that, but I was attempting to ascertain—and it has been answered—that the actual percentage charge for any given amount could be shown on the charge then.

Mr. McKICHAN: That is correct.

Mr. URIE: As I understand it, your objection to expressing the service charge monthly or annually as an effective rate of interest is because of the add ons and because of the unusual payment dates there may be at any time, and so on. We have some information which has been given to us which would lead us to believe that the variation could be minimized by use of three methods. First, if the percentage were calculated on the average balance in any given month. That is one method. Secondly it could be taken on the mid term or mid month balance. Thirdly, if the grace period, which I understand in the case of most retailers may be three or four days before any extra charge is made—were extended to 15 days. Then the variables would be reduced to such a point that you could get a fairly accurate rate. Would you agree or disagree with that, Mr. McKichan?

Mr. McKICHAN: My estimate is that any calculations attempting to define the effective rate would be so complicated that the stores involved would have to abandon the cyclical type of account. Would you bear that out, Mr. Liston?

Mr. LISTON: I have already said this here. I do not know of any way to compute a simple annual rate on a cyclical type of account.

Mr. URIE: There are the three methods I have suggested, because of the variables involved, because you do not know what is going to be added, you do not know what payments are going to be made, and because of the fact that the interest may be charged to a customer who buys a day before the billing date. If these unknowns or variables were reduced, by taking the average, perhaps, of the balances during the month, or the mid month balance, or extending the grace period to 15 days, would that not reduce the number of variables?

Mr. LISTON: I do not really see that it does.

Mr. URIE: I am no mathematician.

Mr. LISTON: I have an idea that it introduces some other variables.

Mr. URIE: The information we have at least shows that would help the situation.

Mr. LISTON: That could be true.

Mr. URIE: May I refer you to page 13 of your brief, paragraph 32.

Mr. McKICHAN: Before we leave that point, would you like the Council to file its considered views on this suggestion?

Mr. URIE: Yes, I think we would, Mr. Chairman.

Mr. McKICHAN: We can do that. I would say that our members have conducted lengthy and serious investigations and, despite serious and earnest attempts to arrive at a method of achieving an effective rate, so far they have been unable to do so.

Mr. URIE: This is information that the members of the committee would wish to have. I see in the first sentence of paragraph 32: "Retailers are not in the money-lending business" but you go on to say that they do extend credit. Is there any element of profit in that?

Mr. McKICHAN: Mr. Chairman, the situation is that, at best, retailers regard their credit operations as marginally profitable and I think this would be the case in a well run credit operation. When one has regard to the extent of credit which they have out at any one time, the figures which are disclosed for companies which operate a separate credit operation show that indeed the profits are very marginal. This is arrived at after making what I believe to be some fairly arbitrary division of costs so that the heavy burden of the costs is shared by the store operation and the light burdens are assumed by the credit operation. Our members read with considerable interest the study prepared by The National Retail Merchants Association in the United States, where a group of 11 stores co-operated in a cost study performed by a well-known firm of public accountants. That study revealed, in the case of these stores, which would be regarded as typical—I have a copy of the study here which I will be happy to file with the committee if you wish—that where strict accounting procedures were used, and where all the costs, which the firm of accountants considered correct, were allocated to the credit operation, in fact, the credit operation was not carried on at a profit.

We do not think the situation in Canada is substantially different from that of the United States. So I think it would be very fair to say that the reason retail stores have credit operations is to stimulate the sales of merchandise; and I am sure that if they were not able to stimulate the sales of merchandise by having these departments, they would be very much happier to use capital employed in some other direction.

Mr. URIE: Further down, in the same paragraph, you say:

It is believed that even if it were possible, the quotation of service charges as simple annual interest rates would not significantly improve a customer's ability to shop for credit.

Why do you make that statement here?

Mr. McKICHAN: We believe this is, as it were, one of the cornerstones of our submission; because we believe that an attempt to compare the credit service charge offered by a retail store, on the one hand, with the credit service charge of any other lender on the other, is to compare two very unlike articles.

Mr. URIE: Credit charges of a retail store would not vary that statement, would they?

Mr. McKICHAN: We believe that the comparability here could be best achieved by a dollar rate.

Mr. URIE: You say further on in that paragraph again:

In the case of credit made available in association with the purchase of some durable article, there would always be a danger that a requirement for the expression of simple interest charges would lead certain firms to deflate the true cost of the credit charge and inflate the price of the goods sold.

I for one find it very difficult to understand that statement, although perhaps it is correct. However, why it should be more applicable to charges expressed as interest, and not as dollar amounts, is beyond me. If a person wants to bring his rates down in comparison to that of his competitor, obviously he does so by increasing the cash price of the article.

Mr. McKICHAN: I think it is true to say at the moment that most credit services are fairly narrowly competitive, so that there is no inducement to emphasize the cheapness or expensiveness of the credit.

Mr. URIE: Is not the same true of percentages? Do you not agree that competition will bring equilibrium, whether expressed as percentages or dollars? If it is expressed as percentages and the retailer says, "I am giving you this for a five per cent carrying charge," he has to put some of the cost in the purchase price.

Mr. McKICHAN: I would say that it would be easier to make an advertising point of a substantially lower percentage charge than it would be to make an advertising point of a charge which is lower in dollars.

Mr. URIE: We have evidence before us that merchants do exactly this—I am not suggesting that any members of your council do—but we have examples of ads which showed variations in prepayment terms for the exact article. For example, one retailer might say so much a month, but not state that it is over a period of 19 months, while the other, selling exactly the same article, and giving the amount of the article, states that it is for a period of 15 months. In other words, there are two ways to skin a cat—whether by percentages or in dollars. Others do not show the cash price, they do not mention various accessories, they inflate the trade-in allowance. All these things can happen in non-ethical businesses, whether expressed in percentages or in dollars.

Mr. McKICHAN: Yes, I agree with that. Our recommendations to the committee, on pages 19 and 20, attempted to set out some principles we thought would enable the customer to get the best possible information as to the nature of the credit he was buying.

Mr. URIE: I agree with that; but all I am trying to say is that this argument on pages 13 and 14 is applicable, no matter whether dollars or percentages are involved, and therefore, when you are opposing disclosure percentage, it is not a valid argument.

Mr. McKICHAN: I go back to my first point, that it would be much more likely that a feature would be made of low credit charges, when these low credit charges were expressed as a percentage, than it would be if expressed in dollar amount, simply because it rolls off the tongue more easily.

Mr. URIE: Do you not think that equilibrium would be reached by sheer competition, that it is obvious that if the percentage is reduced and the cost has to go up, the buyer will shop for cost, and eventually after a very short period of time the equilibrium would be reached?

Mr. McKICHAN: We feel that probably equilibrium could be reached on small purchases, but we see a real danger of this not being the case in large purchases, where a fairly complex article is offered for sale and there are a considerable number of variables with regard to the article.

Mr. URIE: I will not press that further. I think each of us has perhaps made our point. There are recommendations in your brief, whereby I think you would agree that it is socially important that the buyer be put in as close a position as the retailer with regard to information concerning service costs and service charges to which he is exposed?

Mr. McKICHAN: That is correct, sir.

Mr. URIE: So what we have to do is to find a way which would seem to be satisfactory to the consumer and to the retailers in regard particularly to cyclical accounts?

Mr. McKICHAN: That is correct.

Mr. URIE: There have been several mentioned. For example, the flat constant rate, to which Mr. Harrison made reference, in regard to his own company,

the Hudson Bay Company; and the T. Eaton Company does this, in certain provinces, at least. Would you have any comment to make about the suggestion which has been made, that it be mandatory to express the cost as a percentage?

Mr. McKICHAN: Our position, Mr. Chairman, is that so far as cyclical accounts are concerned, this can be done. There is no doubt about that. Our members who do not do so, refrain from doing so because they feel the dollar expression is more meaningful than the percentage expressed per month; and this, I imagine, is a matter of opinion.

Mr. URIE: It is more meaningful to the customer?

Mr. McKICHAN: That is correct, sir.

Mr. URIE: Have you made surveys to ascertain this information, or is this just their own view?

Mr. LISTON: In spite of all publicity, we do not get requests for simple interest rates. This is a fair statement. I have seen very few requests.

Mr. URIE: Sometimes you have to protect the consumer from himself. So your view is that you would rather not be forced to an expression of simple interest?

Mr. McKICHAN: This is our position, and it is also relevant to consider the position of the instalment account, where after the first purchase it is not possible to express the charge as a percentage per month. So even if it were possible to do so in cyclical accounts, you would still have to consider the position of the other accounts.

Mr. URIE: But I understood earlier that in respect to instalment accounts a simple annual or monthly rate could be expressed.

Mr. LISTON: If there are no add-ons?

Mr. McKICHAN: If there are no add-ons, but this is not true in the majority of instalment accounts.

Mr. URIE: What is the difference between an instalment account and a cyclical account?

Mr. McKICHAN: In the instalment account the credit charge is assessed at the time of the first purchase. Then on each subsequent purchase the credit charge has to be recalculated, keeping in mind the unexpired balance made so far. Then the new schedule has to be worked out. My information is that it would not be practically possible to calculate a new percentage prior to the sale of the second item. It is done after the event. Legislation which required its being done beforehand would effectively prevent the use of this account, so complicated is the calculation.

Co-Chairman Senator CROLL: What is a cyclical account?

Mr. McKICHAN: A cyclical account is an account where the charge is assessed on the balance outstanding at the opening of any accounting period.

Mr. LISTON: That is the only basic difference, the way the carrying charge is computed.

Mr. URIE: To get this straight, the differential: in the instalment account the amount which is charged each month is *ex post facto*, is that right, after the event, whereas in the cyclical account you know precisely what their charge is going to be in relation to the balance at any given time?

Mr. McKICHAN: That is correct.

Mr. LISTON: In relation to the balance and not the purchase price. They are both similar in that regard. You are informed after you have bought what the charge in relation to the balance is going to be.

Mr. URIE: In the State of New York and in a number of states in the United States a maximum monthly charge is imposed in respect of a cyclical account. What is your view, or the view of your Council, with respect to this type of legislation?

Mr. McKICHAN: We gave very serious consideration to this feature of the New York legislation you mentioned. It was our feeling we would not recommend the establishment of a maximum rate per month, simply because of the degree of inflexibility it would introduce. While we might agree to some charge which would be perfectly acceptable to all our members under existing conditions, we have little knowledge of what changes in wage rates and so on would do to our rates in the future.

Mr. URIE: This legislation has been in existence in the State of New York since 1957, at least. Has your Council any knowledge of arguments being put forward by retail people in New York State that the legislation is unfair and the amount permitted to be charged is too low, or anything else?

Mr. McKICHAN: We have no information of this nature, but our opposition to this suggestion is not caused by the circumstances of the present. It is our fear that circumstances in the future—whether the cost of money or labour rates or whatever else—will make our charges unrealistic, and we would have to ask for some amendment in the legislation.

Mr. URIE: The same thing would be true there, would it not?

Mr. McKICHAN: Yes, this is true.

Mr. URIE: The Canadian Chamber of Commerce, in its presentation to us, suggested another possible way, that the dollar cost be expressed in relation to each \$100 of credit advanced per annum.

Mr. McKICHAN: We also gave consideration to this suggestion, Mr. Chairman, and we met it with some reservations, because we feel this is an artificial type of figure in that it is neither fish nor foul nor good red herring. To this extent we think it might introduce more confusion than the other suggestions that have been made. Again, this is not applicable and cannot be applied to the cyclical type of accounts.

Mr. URIE: Why not, sir? There seemed to be some consensus of opinion with the Canadian Chamber of Commerce that it could be applicable.

Mr. McKICHAN: No. It is very firmly the view of our Council it can no more be applied to the cyclical type of account than in the case of a percentage per annum.

Mr. URIE: What are your views in respect of the suggestion that if any legislation were introduced requiring disclosure that there be an exemption below \$50 or a flat rate of charge for accounts below \$50, as, in fact, was suggested in the Porter Commission report?

Mr. McKICHAN: Our feeling is—and I revert to this, perhaps to the extent of labouring it—that we cannot conceive of any form of disclosure which can be devised to handle our cyclical and add-on type accounts. To this extent the exemption becomes irrelevant.

Mr. URIE: But in respect of your other accounts?

Mr. McKICHAN: If it were decided to apply a form of mandatory disclosure to all other types of accounts, this would seem to be not an unreasonable provision. Or, to put it in a positive way: this would seem to be a reasonable provision.

Mr. URIE: In respect of that Canadian Chamber presentation, and the dollar cost per \$100 per annum, you are aware, of course, that in New York State, under the conditional sales contract, there is a requirement that the service

charge be expressed in that manner. To your knowledge has it worked effectively?

Mr. McKICHAN: We have no direct information on that.

Mr. URIE: Your recommendations, as contained at page 19 of your brief, I understand, are to a great extent taken verbatim from the requirements under the New York State act, is that right?

Mr. McKICHAN: That is correct.

Mr. URIE: So the only thing you have left out of any major importance is the maximum rate that can be charged?

Mr. McKICHAN: Yes, for the formalities of the contract we used the New York State as a model.

Mr. URIE: I have no further questions at the moment, Mr. Chairman.

Co-Chairman Mr. GREENE: Mr. Mandziuk?

Mr. MANDZIUK: Mr. Chairman, answers have been elicited from the witness to a number of questions I had to ask. What I am concerned with is: do your members of the retail trade all follow this chart, for example, that Walker's do?

Mr. McKICHAN: No.

Mr. MANDZIUK: Why does it vary, and how does it vary?

Mr. McKICHAN: I think the answer is that these charts are made up by individual stores in an attempt to cover their own costs and meet the competition. Some stores may make relatively higher charges on lower balances, and some lower charges on higher balances. This is a matter of their own discretion.

Mr. MANDZIUK: What I have in mind is, Hudson's Bay and Eaton's are in competition, with practically the same products. How would their service charge charts compare? Would they be approximately the same?

Mr. HARRISON: I do not know if I can answer that question.

Mr. MANDZIUK: Your brief puts in one and not other. Does your statement of account also contain a schedule of service charges chart, as Walker's does—and Eaton's?

Mr. McKICHAN: Some are not expressed by way of a chart. Some are expressed as a percentage per month.

Co-Chairman Senator CROLL: The question Mr. Mandziuk asked was how they compare. Both gentlemen are here, one from Eaton's and one from Hudson's Bay. Are we to understand they do not know what is going on in the others store and what the charges are in the other store?

Mr. UPSHALL: I have not seen the Hudson's Bay chart.

Mr. McKICHAN: While not the same, the charges are similar in that they are close to each other.

Co-Chairman Mr. GREENE: Do you gentlemen have your charts here? If we have anything to hide at this stage of the game, no wonder the public do not know. Do you have your charts here? If so, produce them, please.

Mr. McKICHAN: Those of our members who do not have them here will be happy to file them.

Co-Chairman Senator CROLL: Please answer Mr. Mandziuk's question.

Mr. MANDZIUK: I want to know what the comparative chart is of two of the chief competitors dealing in the same lines, Hudson's Bay and Eaton's—or, if you like, Simpson-Sears.

Mr. LISTON: I can tell you the Simpsons-Sears chart and Eaton's chart are almost identical.

Mr. MANDZIUK: I think we should ask that these schedules or charts be filed for comparison purposes.

Co-Chairman Senator CROLL: Where is the one for Hudson's Bay?

Mr. MCKICHAN: This is it, and this is T. Eaton's.

Mr. ORLIKOW: After these are filed could our accountant study them?

If a poor, ordinary customer wants to make a purchase of, say a frigidaire, and in Winnipeg he compares the price at the Hudson's Bay store and Eaton's and finds out that the retail price is the same, can he, by looking at these charts, know that at the end of the period he will have paid less or more at one store than another, or the same?

Mr. MANDZIUK: That is exactly my question.

Co-Chairman Senator CROLL: We have here now the chart for the Eaton Company and Hudson's Bay Company; and Simpsons-Sears will send us their chart.

Ask your question now. Ask each one of them.

Mr. MANDZIUK: Mr. Chairman, is it possible for any member of the committee, including myself, to ask you to pass one single copy around and, on the spur of the moment, be able to ask questions?

Co-Chairman Senator CROLL: If you can catch the fall meaning it as quickly as that, you are better than I am.

Mr. ORLIKOW: Suppose I bought a frig. costing \$500 and paid off \$25 a month, would I be finished paying at both stores at the same time?

Mr. LISTON: The answer to that is substantially, yes.

Mr. ORLIKOW: Not "substantially". What is the difference?

Mr. LISTON: There are going to be slight differences.

Mr. SCOTT: Could you explain to us what the differences are and what the difference in the cost to the purchaser would be?

Mr. MANDZIUK: I would like to study this, too.

Co-Chairman Mr. GREENE: Does any member of your delegation wish to answer Mr. Mandziuk's question or is any member capable of answering from these charts, or can you tell from them whether the rates are the same or different? If they are different, in what way are they different?

Mr. ERWIN: Certainly, if I may borrow a chart.

Mr. MANDZIUK: I want you to compare it with this, page 9—the bottom of page 9.

Mr. ERWIN: Mr. Harrison tells me this is a soft goods on which they have this descending balance. The question the gentleman asked over there dealt with a refrigerator, I believe. In the Hudson's Bay Company the charge made is a straight one per cent on the declining balance. In this particular instance their charges would be less.

Co-Chairman Senator CROLL: Whose charges would be less?

Mr. ERWIN: The Hudson's Bay Company.

Co-Chairman Senator CROLL: Than whose?

Mr. ERWIN: Eaton's.

Co-Chairman Senator CROLL: Very well, go ahead.

Mr. ERWIN: Let us start with, say, \$500.

Mr. MANDZIUK: Why not \$100, would it not be simpler?

Co-Chairman Senator CROLL: Let him go ahead with the \$500. We feel rich this morning so we will make it \$500.

Mr. ERWIN: In the first month the balance is \$500. Eaton's would charge \$6 according to the chart. The Hudson's Bay Company charge is one per cent, or \$5. We are assuming this would be paid at \$25 a month, I believe. Therefore at the start of the next month we have a balance of \$500. The customer paid \$25 in the case of Eaton's, and \$6 was added. In the case of the Hudson's Bay Company \$5 was added. At the end of that month we would have a balance of \$481 in Eaton's, and \$480 in the Hudson's Bay Company. In the next month the customer would pay \$25 again in each case. In Eaton's the opening balance was \$481 and Eaton's would charge \$5.70. The opening balance in the Bay was \$480, so that they would charge one per cent or \$4.81, and this continues on down.

Co-Chairman Senator CROLL: Is it possible for you to tell us at the end of the contract how much it would be? Would that be very complicated?

Mr. ERWIN: Not unless I went through 20 steps as I have done.

Co-Chairman Mr. GREENE: Is it fair to say that if it takes a group of accountants this long to work out the cost it would be difficult for a lay consumer to work them out on the charts presently available?

Mr. ERWIN: In this particular instance the comparison is fairly obvious. The one per cent is lower than what Eaton's are charging on this.

Mr. MANDZIUK: But obviously since Eaton's do so much business the customers do not realize they are charging this much more.

Mr. BELL: There is also the question that it is most unlikely that you will have the same frige for the same price. You would not have the same price in the two stores.

Mr. McKICHAN: There is another characteristic to be taken into consideration, and that is the likelihood that this would not be an original purchase in either case. It would more likely be an addition to an existing balance.

Mr. MANDZIUK: You say there is a variation in service charges. How do your members calculate the service charge? Is it a haphazard way or is it based on some percentage?

Mr. McKICHAN: The yield they wish to receive from the service charge is determined first of all by the cost and secondly by competition. The manner in which they make up the charts is that they work on a percentage of the balance and translate this into service charges. This is not a percentage of the purchase but a percentage on the balance.

Mr. LISTON: I think that is substantially correct.

Mr. MANDZIUK: Another question is this; you are always coming up with an answer that is too complicated. Is it too complicated to explain how you compute this or is it too complicated to explain to the committee how each member computes these charges? As a common man I don't know anything about figures. I would like to know how a common man can understand the explanation so that he will not be suspicious that something is being hidden.

Mr. McKICHAN: Well, it is too complicated to calculate the interest rate annually. It is completely different to calculate a percentage rate per month and this is in fact what they do.

Mr. MANDZIUK: Say \$100 worth of goods from Walker's. Supposing a customer buys this and did not pay for the whole 12 months. He would be liable then for \$17.40 in charges—isn't that 17.4 per cent?

Mr. McKICHAN: 17.4. That is the sum of the service charges. That is in effect or it would be in effect a percentage rate. But when this customer opened his account with Walker's it would not be possible to predict his billing date under the cyclical account system and this could produce a variation of one month's charges. Furthermore it would not be possible to anticipate what further purchases he would make. In the average 90 per cent of the

customers do make additional purchases. Therefore in the first instance it is impossible to forecast into which bracket his monthly payments will fall, and when you cannot forecast his bracket and his billing date it is not possible to forecast a simple rate of interest.

Mr. BELL: You have presented the difficulties that would be encountered if you tried to determine an annual interest rate along the lines of the previous case. But is there not some way in which you could put all the information into a computer and determine the actual interest rate at a certain time over a fixed number of accounts? This would be similar to what the railways do in the analyses they conduct.

Mr. LISTON: I think the answer to that question is: "Yes". It probably would be possible to figure an interest rate with a computer, but whether we could afford to do that is another question.

Mr. BELL: Would you object to making a spot check on a certain number of accounts at a certain time in order to ascertain the percentage rate of interest that is being charged at that moment?

Mr. LISTON: Are you asking me if we would be willing to do that?

Mr. BELL: Yes.

Mr. LISTON: Yes, I think we would.

Mr. McKICHAN: It must be borne in mind that while we are speaking for institutions like Simpsons-Sears and the Hudson's Bay Company we are also speaking for the smaller members who probably would not be equipped to make this type of calculation.

Mr. LISTON: And this would be after the fact. This would not be the disclosure of interest at the time of the sale.

Mr. McKICHAN: This would be a fictional type of charge in that it would not be applicable to any particular type of customer, and it would not be applicable to any one customer's actual charges.

Mr. BELL: I have one more question. You mentioned that the larger accounts carry the smaller accounts.

Mr. McKICHAN: I think it is true to say in the case of most retail organizations that they would not be able to operate if they had only small balances. The revenue derived from the larger balances helps to carry the smaller balances.

Mr. BELL: Is this not dangerous in that it tends towards the formation of larger accounts and greater credit?

Mr. McKICHAN: I think it is true to say that any customer, in dealing with a store, goes through a cycle of moving from a small to a large balance, and then after he has paid off the large balance he moves into the area of smaller balances.

CO-CHAIRMAN Mr. GREENE: Mr. Macdonald, in view of the number of members of the committee present I think we shall limit each member in the first round of questions to ten minutes. After that, if it is not too late, perhaps we can allow you further questions.

Mr. MACDONALD: I have a figure here of department store credit outstanding in 1951 of \$78 million. Does that figure seem to be correct to you?

Mr. McKICHAN: I did not hear you.

Mr. MACDONALD: Does \$78 million seem to be the figure of department store credit outstanding in 1951? I have a note here also that in ten years that figure increased by 414 per cent to \$401 million. First, do those figures seem to be generally correct and, second, to what do you ascribe that very large increase in credit?

Mr. McKICHAN: I am prepared to accept your figures because I am not aware of the 1951 figure, but the more recent figure you quote seems to be in the right area. I would say, first of all, that you will find that the amount of personal loans granted by banks has grown at an even greater pace during the same period. I think the factors that have caused this are numerous. First of all, there has been a considerable increase in the population. Secondly, there has been a considerable increase in the rates of family formation. Thirdly, there has been a considerable increase in the affluence of the population. I think it is significant to realize here that as the affluence increases then the disposable income of the population increases at a much faster rate.

Mr. MACDONALD: But the rate of increase has been 414 per cent.

Mr. McKICHAN: I am not suggesting it is to that extent, but it is obviously an accelerating item. I would imagine that the last characteristic is that a customer uses credit by choice, and in doing this I think the customer is aware that the credit facility offers an element of saving as well as an element of spending in that it obliges him to meet his ambitions, as it were. I think all these characteristics are correlated.

Mr. MACDONALD: It is possible for you to say which of the different types of contract we have discussed has been responsible for this type of increase? Has it been caused by instalment buying or cyclical buying, or is it possible to generalize in this respect?

Mr. LISTON: Are you asking which has been responsible for the greatest increase?

Mr. MACDONALD: Yes.

Mr. LISTON: I would say the revolving charge account.

Mr. MACDONALD: I made a note that you said that the situation in Canada is not substantially different from that in the United States in so far as this question in this industry is concerned, and I also noted that you suggested that credit is only marginally profitable. It is my understanding that there was an article in the not too distant past by William Wood, Jr. in *Fortune* which asserted that some United States stores are making more profit out of credit charges than they are out of the merchandise itself.

Mr. McKICHAN: I am not familiar with that article, sir, but I know our members would take very strong exception to it in the case of their own companies. They are in the credit business simply because it is a very great stimulus to sales. They would not be in the credit business were it not for this fact. As I mentioned earlier, I am sure all of them would much rather devote their capital to some other purpose such as a trading purpose if they had that opportunity.

Mr. MACDONALD: I wonder if I could address a question to Mr. Erwin in particular. Is the revolving credit plan Eaton's version of the cyclical account?

Mr. ERWIN: Our main version of the cyclical type of account is the budget charge account, but we do have a revolving credit account in Montreal.

Mr. MACDONALD: But not elsewhere in Canada?

Mr. ERWIN: No.

Mr. MACDONALD: In the past did you have such an account elsewhere in Canada?

Mr. ERWIN: Yes, we have had it in the past.

Mr. MACDONALD: I believe that in that particular account you had a provision whereby $1\frac{1}{2}$ per cent was charged on the last monthly balance by way of a service charge. Why did you abandon that particular method?

Mr. ERWIN: We have always used the figure of $1\frac{1}{2}$ per cent on a revolving credit type of account. This is a shorter term account. The one to which you

referred was, I believe, a six-month account. "Short term" implies smaller balances, and the charges on smaller balances, as you can see from this scale of charges, are calculated at about $1\frac{1}{2}$ per cent.

Mr. MACDONALD: How do you calculate the service charge on the budget plan?

Mr. ERWIN: On our budget account?

Mr. MACDONALD: Yes.

Mr. ERWIN: In accordance with that charge.

Mr. MACDONALD: And on the diagram that the customer gets he does not have a monthly percentage. It is just a flat rate charge between two figures?

Mr. ERWIN: When the customer opens the account she is given a copy of a brochure which contains the charges, and the charges are also printed on the back of the statement that she receives each month.

Mr. MACDONALD: And the charge is in dollars rather than in percentages?

Mr. ERWIN: Yes.

Mr. MACDONALD: Thank you, Mr. Chairman.

Co-Chairman Mr. GREENE: Mr. Scott?

Mr. SCOTT: I wonder if you could give us some figures on the percentage of total sales that are made on the cyclical financing basis?

Mr. McKICHAN: Am I correct in thinking that you are contrasting this with other forms of credit?

Mr. SCOTT: No. What I am wondering about is what percentage of the total sales is made on the cyclical type of financing?

Mr. McKICHAN: This varies very considerably from one company to another, as I understand it. Would you care to comment on that, Mr. Liston?

Mr. LISTON: I would say of our total—and this varies—somewhere between 40 and 50 per cent is done on credit, and about 85 per cent if that is done on the cyclical type of account. Does that answer your question?

Mr. SCOTT: I am thinking about your answer. You say that of total sales 40 to 50 per cent is done on a financing basis of some sort?

Mr. LISTON: That is right.

Mr. SCOTT: And of those sales that are financed 85 per cent—

Mr. LISTON: 85 per cent of total credit sales approximately would be done on cyclical accounts.

Mr. SCOTT: Could we have similar estimates from the other companies?

Mr. HARRISON: 25 per cent of our business is done on cyclical accounts.

Mr. SCOTT: And what percentage is done by way of other forms of financing?

Mr. HARRISON: Basically in the area of the Hudson's Bay Company that I represent we do not have any other type of long-range financing. It is all cyclical.

Mr. SCOTT: What about Eaton's?

Mr. ERWIN: I would say our total credit business would run between 40 and 50 per cent, and approximately half of that would be on the instalment type of account, and in the instalment type of account I include cyclical accounts.

Mr. SIMMONS: Walker's does about 25 per cent.

Mr. SCOTT: 25 per cent of total sales?

Mr. SIMMONS: Yes.

Mr. SCOTT: How long has this type of cyclical financing been in effect?

Mr. McKICHAN: I understand it has been in effect for about nine years in Canada.

Mr. LISTON: It has been in effect for a lot longer than that really, but it has been a big thing during the last nine or ten years.

Mr. SCOTT: Do you have any figures of total sales over that period of time?

Mr. McKICHAN: I do not have them with me, but I can certainly provide those for you, sir.

Mr. SCOTT: And also figures of the increase in this type of sales?

Mr. McKICHAN: Just to clarify your question—

Mr. SCOTT: Let us take the last nine years during which cyclical financing has been in effect. If it is not too much trouble I would be interested to know the total value of sales during those nine years.

Mr. McKICHAN: By "total value of sales" you are referring to sales customarily made in stores, I take it, as opposed to automobile sales and other types of sales?

Mr. SCOTT: Yes, and secondly I would like to know the increase in total sales made on cyclical budgeting accounts?

Mr. McKICHAN: I am not too confident at being able to get an accurate figure for the latter part of your question, sir, but we shall endeavour to give you an estimate.

Mr. SCOTT: You seem to indicate that the stores are really not interested in this type of financing, and that they do it primarily as a service or in an attempt to stimulate sales. Is that correct?

Mr. McKICHAN: They are not interested in it for revenue producing, they are interested in it as a means to stimulate sales, that is correct.

Mr. SCOTT: How do they arrive at the figure to go in it? How do they arrive at the calculation of the figure?

Mr. McKICHAN: The charges are set, first of all, in an attempt to cover their costs, and modified in the light of competition which is prevailing.

Mr. SCOTT: To your knowledge, are any of them losing money on the credit facilities they are providing?

Mr. McKICHAN: Keeping in view the fact that the larger companies are only able to operate on a break even or marginally profitable position, I would not be surprised if some of the smaller units were not in fact making a profit, or a marginal profit, on their transactions.

Mr. SCOTT: In the example we started to work on, between the Hudson's Bay Company and Eaton's, the two months that we covered showed quite a variance between the charges. How would a purchaser be able to get the necessary information to make a comparison?

Mr. McKICHAN: In the first instance, the normal characteristic would be that the customer would already have a balance with one or other of the stores and his new purchase would be added to that existing balance, so he would then have to compare the rate prevailing for his new balance with the equivalent charges offered by the competing store.

Mr. SCOTT: How does he do that? That is what I am asking you.

Mr. McKICHAN: He would do that by comparing the charts, comparing the same amount of balance with each store and having regard to the service charge they both put on.

Mr. SCOTT: So that in order to arrive at a comparison he would have to sit down, as we started to do, to calculate every monthly payment in each case and add it on?

Mr. McKICHAN: If he wanted to make an exact calculation of the charge over the history of the contract, this would be the only way of doing it; but the characteristic is of course that he would not simply be concerned with one charge, he would be concerned with many. I think his best method of comparison would be to have regard to the charges made for balances, within the range in which he was likely to fall.

Mr. SCOTT: Is it fair to say that as long as this type of financing is in existence there is virtually no way that a purchaser can make an intelligent comparison between two stores.

Mr. McKICHAN: On individual purchases the cyclical credit system presupposes that he is not going to concern himself particularly with individual purchases, but that he is going to be concerned with what he pays over the history of the contract.

Mr. SCOTT: Our counsel Mr. Urie made a suggestion to you of three methods he felt would make it possible for a check to be made so that the purchaser would know with a greater degree of accuracy what he was paying. Do you remember those suggestions?

Mr. McKICHAN: Yes sir.

Mr. SCOTT: Would your Council be prepared to conduct an experimental survey with our counsel to ascertain whether or not this type of proposal is realistic?

Mr. McKICHAN: We would be very happy to do that. As we mentioned in our submission, we would be very happy to co-operate with this committee in every possible way. This would be one area where we would be happy to co-operate. It is our belief that there is no means in which this can be done on a practical basis and we would expect that this would be the result of the experiment, but we would be very happy to carry it out.

Mr. SCOTT: We do not want to be unfair to you, but I am really fascinated by the idea that this world of financing is such that it can be subject to no method except that which you devise yourself.

Mr. McKICHAN: We have attempted to show the means in which the area can be regulated in what we think would be a satisfactory manner but beyond that point, as is evidenced by the similarity or the comparative closeness of the charges, there is a considerable amount of competition in that field and we think that competition would take care of any significant difference.

Mr. SCOTT: But let me ask you, how can competition take this into consideration, when the person paying the charges, on your evidence this morning, has no conceivable way of accurately comparing your methods?

Mr. McKICHAN: We feel, sir, he can compare the rate charged on the balances and this is fairly accurate determination of the charges under each plan.

Mr. SCOTT: How can that be so, in the light of the one example we started to work on, where right away we saw a long calculation in prospect before getting an accurate answer?

Mr. McKICHAN: We recognize that it is extremely difficult for a customer to trace the history of any one purchase through the cyclical type of account, but it would not be difficult for him to compare the rate charged at any one point, with the rate charged on the same balance on another plan. This, we believe, is the significant element in this.

Mr. SCOTT: So you are suggesting to us that there is no way of making this type of financing subject to regulation that will let the customer know exactly what he is paying in the line of charges?

Mr. McKICHAN: I think it would be correct to say that there would be no simple way of enabling a customer to know what his total charges were on any one purchase through the history of his paying off that purchase.

Mr. SCOTT: Why is that?

Mr. McKICHAN: Because his purchase is lumped with all the other purchases he makes on the cyclical type of account. This is the characteristic of the plan, and apparently one which has recommended itself very favourably to purchasers, because of the considerable use made of it.

Mr. SCOTT: Do the companies keep accurate figures as to the costs involved in this type of financing, to themselves?

Mr. McKICHAN: I would imagine they do.

Mr. SCOTT: Are such figures available to the committee?

Mr. LISTON: We make an effort to apportion credit costs, to apportion certain costs as the cost of doing credit business; but there are many costs that would require a very complicated system to assess properly. For example, how much longer does it take to complete a credit transaction on the sales floor than to complete a cash transaction. To relate the proper proportion of the total charges to the actual charges which are going to occur is difficult. This was the reason they made that study in the United States, to try to find out exactly what it does cost in total to operate the credit business.

Mr. SCOTT: Then, is the rate you charge just really a guess, if you do not have an accurate accounting method for establishing the costs?

Mr. McKICHAN: It is an estimate, based on the costs that you can separate and keeping in mind competition, that this rate must be competitive.

Co-Chairman Senator CROLL: A question was asked by the committee—by Mr. Mandziuk, Mr. Scott, Mr. Orlikow and others—about the purchase of an identical \$500 refrigerator at Hudson's Bay or at the Eaton Company. Mr. Harrison made some calculations for us. We have had our accountant complete the calculations and it indicates that the man buying the identical refrigerator on terms at Hudson's Bay Company will pay \$19.14 less than the man buying at the Eaton Company—which is 4 per cent.

Mr. SCOTT: That is not very competitive.

Co-Chairman Senator CROLL: That is what the figure shows. I am going to put that on the record.

Mr. BELL: I pointed out at the time that it should be understood for the record that this was for the same refrigerator, that cost exactly the same. You might have a difference in the costs. It is not for \$500 worth of any goods, but for a particular refrigerator.

Co-Chairman Senator CROLL: That is so.

Mr. ORLIKOW: That is precisely the point. Any customer with any reasonable intelligence can go into Eaton's or any store and take a look at two General Electric refrigerators and know the price quoted as being the purchase price. What I want to know is can a customer know how much he will pay if he does not pay cash? We have been told repeatedly by the representatives of the Retail Council that more and more business is being done not in cash but on this cyclical type of accounting. Why should a customer not be able to know what the final payments are? I would like to ask Mr. McKichan this. I realize that there are some complications when you get this under way, but surely by isolating one purchase the customer can get a pretty good idea of the total picture, if you really want the customer to know?

Mr. McKICHAN: I think the situation is that, as I mentioned earlier, it would be most unusual if this were an isolated transaction. The likelihood would be that there would be other purchases before or after the purchase of this refrigerator. Because of this, it would be a virtually impossible calculation to segregate the refrigerator as an individual sale. So far as the question of comparability is concerned, I think it became apparent when the initial balance was quoted, that there was a difference of a dollar in that service charge, so obviously right away it was apparent to the customer that this difference was existing, and this provides him with a good standard of comparability.

Mr. ORLIKOW: It seems to me from your argument presented, and by that of the Chamber of Commerce and others, that the method of calculating annual interest is not exact, or not exact to some decimal point, which I do not think the customer really is concerned about. If you want to get a pretty close calculation, why could not the customer be billed say on the first or fifteenth of the month, and then calculate to the average. If all companies did the same that would simplify matters, and legislation would go through faster.

Mr. McKICHAN: The reason cyclical billing is adopted is simply as a basis of achieving economy in the use of credit staff. Bills are cycled either on an alphabetical basis, by the surnames of the customers, or on a geographical basis, within areas of cities or towns, or in the country. If this were not done, there would be enormous pressure on the credit staff, and presumably more staff would be needed working at the peaks and less in the valleys. It is in an attempt to avoid this and to achieve a more economical operation that cyclical billing largely is adopted.

So far as the other part of your question is concerned, I think it is difficult to emphasize too strongly that we are not dealing with isolated transactions, but with an account over a period of time, and that it is not just a case of being difficult to quote an interest rate, or even a case of being impossible to quote an interest rate accurately, it is a question of impracticability at all to quote an interest rate for purchases on a cyclical type of account. The degree of accuracy is not so significant a point as the practicability.

Co-Chairman Senator CROLL: Did the Council appear before the Porter Royal Commission?

Mr. McKICHAN: Mr. Chairman, the Council was formed in June of last year, but many of its members were members of the Canadian Retail Federation, which is a—

Co-Chairman Senator CROLL: Which did appear?

Mr. McKICHAN: Yes.

Mr. URIE: The Retail Merchants also appeared.

Mr. McKICHAN: Yes, they also appeared.

Co-Chairman Senator CROLL: You are aware of the recommendation of the Porter Commission, of which I will read you just a part:

In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty. Different methods of calculation yield slightly different results, but there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so;

At that point, there is a footnote, which says, "See, for example, 1963 Annual Report of Coronation Credit Corporation Limited". I copied down your words in reply to a question which was asked by someone. You say this is impossible.

Mr. McKICHAN: It is our belief that to attempt to compute a simple annual interest rate on purchases in cyclical types of accounts is impossible.

Co-Chairman Senator CROLL: But to understand what I am getting at: almost the same group, if not a larger group, appeared before the Porter Commission and made representations. I have not seen the briefs, but I understand that the representations were almost similar to those which are being made here today. After consideration, men skilled in finance, who are members of this commission, come up with this recommendation. In the light of that, you used the term "impossible." I am a little concerned about that.

Mr. McKICHAN: Sir, when the Canadian Retail Federation appeared before the commission, it touched on the matter, but did not dwell on it, because it regarded the subject as only on the margin of the terms of reference of the Royal Commission on Banking and Finance. We also believe that the commission, in considering this question, did not conduct an inquiry into the technical aspects of the situation, and we feel that if they had done so they also would have shared our opinion as to the practicability or otherwise of the application of that principle to cyclical accounts.

Co-Chairman Senator CROLL: I am told that the Consumers' Association of Canada appeared before the commission, and at a later date, the Retail Merchants appeared before the commission. On this particular aspect they had briefs from farmers, credit unions and other groups, dealing specifically with this subject. In the light of all that, the recommendation was made by this commission.

Mr. McKICHAN: I think, sir, it is true to say that the commission specifically referred to the very large problems cyclical accounts presented, but I think they suggested that perhaps there was a means of achieving a result by providing some sort of average figure. However, the commission did not recommend specifically the method which would be adopted in arriving at this average figure. We ourselves are at a loss to see how this could be done, and how a meaningful, average, firm figure could be produced.

Co-Chairman Senator CROLL: But the commission said it is already being done. It was not dealing with abstract matters. It said this is being done by a company, and it gave the name. I was not there. I am reading the report. Then they go on to say:

Nor are we impressed with the argument that requiring disclosure would raise the cash price of an article, and thus lead to concealment of the effective interest rate. We believe that, as now, effective competition will keep the cash price at realistic levels, but in order to protect against the possibility of merchants using inflated cash prices for the purpose of calculating interest, the Act should contain a provision that the price of the article must be that at which cash transactions are normally carried out.

They not only go that far, but they also say:

Finally, this legislation should impose stiff penalties for excessive charges or failure to disclose.

They set it out in such a way as to indicate it must have been a matter of some concern to them, because they went quite a distance, by their measurement and by my measurement.

Mr. McKICHAN: Sir, my recollection of the report was that the commission made some recommendations for a disclosure of an average charge, or words to that effect.

Co-Chairman Senator CROLL: No. Nothing in here says anything about an average charge at all. Let me read the recommendations as they appear on page 382. I will read the whole thing:

However, we do recommend that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer. In addition to indicating the dollar amount of loan or finance charges, the credit grantor should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty. Different methods of calculation yield slightly different results, but there is no reason why disclosure in terms of the effective rate of charges cannot be made according to an agreed formula, and some lenders already do so: comparability is more important than the precise level. While we recognize that there is great difficulty in calculating the exact charge if use is made of revolving credit, there is no reason why the customer cannot be shown the effective charge if he follows a typical plan. Borrowers may indeed be more interested in the dollar amounts of the finance charges and monthly payments than in the effective interest rate, but it will certainly not do any harm—and may well do much good—to let them know the effective rate as well. The distribution of approved rate books by the grantors of credit would minimize any difficulties of calculation from their point of view.

Nor are we impressed with the argument that requiring disclosure would raise the cash price of an article, and thus lead to concealment of the effective interest rate. We believe that, as now, effective competition will keep the cash price at realistic levels, but in order to protect against the possibility of merchants using inflated cash prices for the purpose of calculating interest, the Act should contain a provision that the price of the article must be that at which cash transactions are normally carried out. Finally, this legislation should impose stiff penalties for excessive charges or failure to disclose. At the least, the lender should forfeit all principal and interest on the illegal transactions. In addition, fines should be imposed and, as now, the authorities should have the power to suspend the licences of lending institutions in cases of flagrant violation.

That is it.

Mr. McKICHAN: My recollection was in reference to the typical plan the customer followed. In considering this it was our feeling it would be extremely difficult to evolve a means of specifying a typical plan or any typical series of purchases which might be used to demonstrate this to the purchaser, both because of the difference in plans from retailer to retailer and also differences in the use which customers would make of them. Any typical plan cited might not bear any relationship to the use of a plan by a customer.

Co-Chairman Mr. GREENE: What you are saying is, in effect, if there is legislation in this regard you will have to change your accounting methods. That is all you have said, as far as I can see.

Mr. McKICHAN: It is our view that if legislation were passed which required disclosure of the simple interest rate on purchases it would then be necessary for retailers to abandon their cyclical type of plan.

Mr. SCOTT: What kind would you enter into then?

Co-Chairman Mr. GREENE: The cyclical type of plan was created not to make profits for the producers of these plans, as I understand your evidence, but it was created to enhance sales—is that right?

Mr. McKICHAN: Yes.

Co-Chairman Mr. GREENE: That is the purpose of the cyclical plan?

Mr. McKICHAN: Yes.

Co-Chairman Mr. GREENE: So, if there is compulsory disclosure you are going to have to abandon the cyclical plan of accounting and find some other ways to make sales?

Mr. McKICHAN: Yes.

Mr. LISTON: Under the cyclical type of account one convenience is that the customer does not need to go to the credit department for every purchase. Prior to the cyclical account he had to; and if this legislation were introduced we would have to go back to that and would have to send her to the credit department every time she made a purchase.

Mr. ORLIKOW: Thas it no great inconvenience, is it?

Mr. BELL: Would there be extra cost involved?

Mr. LISTON: Yes.

Mr. URIE: Couldn't the customer produce his credit card, and unless there is something to the contrary the clerk has, that is his key to being granted credit?

Mr. LISTON: That does not give the simple annual interest rate.

Mr. URIE: You do not have to go along with the question Mr. Greene suggested. There might be something else. All you have said, Mr. Liston, is that the person would have to go to the credit department each time. I do not think that is necessary.

Mr. LISTON: To give this information, I assume a disclosure bill would require you to give—

Mr. URIE: He could get it from the sales clerk or someone else.

Mr. LISTON: The sales clerk does not know the balance on an account.

Mr. URIE: You said you are going to abandon that type of financing.

Mr. LISTON: To compute the interest rate you have to know what the balance on account is.

Mr. URIE: Then you have not abandoned the cyclical method, is that right? Maybe we are at cross-purposes, but I understood you to say in response to Mr. Greene's question that if you abandoned it you would have to go to some other method.

Mr. LISTON: One of the disadvantages of the other method that I see is that the customer would need to go to the credit department.

Mr. McKICHAN: I think it would be true to say that members of this Council regard the cyclical type plan as a very significant inducement to sales and a very significant factor in maintaining the buoyancy of the economy. When consideration is given to this subject the Council asks that these facts be given due weight, because they themselves treat this matter very seriously from this point of view.

Co-Chairman Mr. GREENE: Until nine years ago they were in very little use and retail stores were still selling. This was one of the methods they envisaged would help increase the buoyancy of sales, and you feel that if this method has to be abandoned it may have an ill effect on that buoyancy of sales?

Mr. McKICHAN: This is a very serious consideration.

Mr. SCOTT: What do you mean, he would have to go back to the credit department?

Mr. LISTON: If you are going to give the average rate on purchases, where are you going to do it?

Mr. SCOTT: He goes there to get the information, is that all that he does? Is that what you are saying?

Mr. LISTON: And has to wait while somebody computes it.

Mr. SCOTT: He goes there in order to get the disclosure?

Mr. LISTON: Yes.

Mr. SCOTT: You are suggesting that having to do that would ruin the whole system of sales?

Mr. LISTON: I think it would have an adverse effect.

Mr. McKICHAN: It has to be borne in mind this would take place literally millions of times in a year at any one store.

Mr. SCOTT: To me that argument is fantastic.

Mr. LISTON: The same customer might go there twenty times a month.

Co-Chairman Senator CROLL: We did not hear your remark, Mr. Scott.

Mr. SCOTT: To me, your submission is fantastic. Because we want disclosure made to the customer, and in order to have disclosure he would have to go to your credit department to get it, you are suggesting it would be such an inconvenience that you would have to abandon the whole system. I suggest that is a fantastic proposition.

Mr. McKICHAN: I think our submission goes further than that on cyclical accounts. We mentioned earlier the calculation is not susceptible of being made on a purchase. This is not a case of simple inconvenience, but a question of practicability. It is the view of our members that it is absolutely impracticable to average the simple annual interest rate on purchases—not simply because the customer has to go to the credit office, but the calculation itself would be one of extreme mathematical difficulty and quite impossible to handle.

Mr. SCOTT: Why?

Mr. McKICHAN: Perhaps I can turn that over to somebody else.

Mr. ERWIN: In the case of a purchase, in order to calculate the amount of the carrying charge on the individual purchase you have to go back to the balance in the account. What the Eaton Company does is to rebate the carrying charge on the original and arrive at a new balance and project this new balance with a recalculated carrying charge for the number of months permitted.

Mr. SCOTT: You say that is impossible to do?

Mr. ERWIN: It is not impossible to do, but it is a tremendous job, every time a customer makes a purchase.

Mr. URIE: Do you do that now on instalment accounts?

Mr. ERWIN: Yes, we do that now on instalment accounts.

Mr. URIE: The only difference between the situation which prevails today and what has been suggested is that you have to add one more column to your bill or contract or whatever it might be, and that would be the percentage—is that no right? In other words, as Mr. Scott has pointed out, you know the exact amount the eventual dollar charge will be after the added-on purchase. The only further step is to calculate that cost as a percentage.

Mr. McKICHAN: This could provide a percentage per month, but not annually.

Mr. URIE: No, maybe not the annual percentage.

Mr. McKICHAN: No, not annually.

Mr. URIE: We have talked about "per month".

Mr. LISTON: That is quite possible to do. We have no argument against it we are not saying it cannot be done, because it can be done.

Co-Chairman Mr. GREENE: I think this is one of the essentials in the determinations of this committee. Your views, gentlemen, are that a monthly rate within a cyclical account type of credit is feasible?

Mr. LISTON: Yes.

Co-Chairman Mr. GREENE: But the annual rate is not?

Mr. BELL: Some do it now.

Co-Chairman Mr. GREENE: Do you have any objection? As Mr. Bell said, some of them do and some do not. Does your association, as an association, have any objection to legislation in the nature of what Hudson's Bay and Eaton's are doing now?

Mr. URIE: What Eaton's and Hudson's Bay are doing now is they are having a flat rate, no matter what the size of the account is— $1\frac{1}{2}$ or $1\frac{1}{4}$ per cent.

Mr. LISTON: That is not true.

Mr. URIE: That is not quite so.

Mr. LISTON: The rates change.

Mr. URIE: In the T. Eaton Co. it is a flat $1\frac{1}{2}$ per cent in Montreal?

Mr. ERWIN: Yes, in Montreal.

Mr. URIE: What we are asking is this—is it possible to disclose an effective monthly rate, not a flat rate? In other words is it possible to disclose an exact percentage calculation of the carrying charge at the end of any given month?

Mr. McKICHAN: This could be done on cyclical type accounts, but it could not be done on the instalment type.

Mr. URIE: You are saying it can be done for cyclical accounts but not for instalment accounts.

Mr. ERWIN: The rate could be shown on the brochure provided to the customer and on the back of the monthly statement. This rate could be shown as well as a dollar amount which is related to the opening balance. This is given to the customer at the beginning and constitutes a disclosure of what she may be paying.

Mr. URIE: You would have no objection to legislation of that kind if this committee of Parliament saw fit to pass legislation of that nature?

Mr. ERWIN: We would have no serious objection to that.

Co-Chairman Mr. GREENE: Is there any member of your delegation who would have serious objection to that type of legislation?

Mr. McKICHAN: A number of people might feel that to quote both a percentage and a dollar figure would be confusing. However if this were the wish of the committee or of Parliament there would be no serious objection.

Co-Chairman Mr. GREENE: This would in fact constitute a lesser evil than the compulsory disclosure of an annual rate of interest.

Mr. LISTON: This percentage per month would be quite easy and quite practicable.

Mr. BELL: Does that get us anywhere along the way to annual disclosed rate of interest? What kind of comparison will it give us by the month?

Mr. McKICHAN: As we mentioned in the brief it is not possible simply to multiply this figure by 12 and get a simple annual interest rate. The rate equivalent might be varied to some extent—by some percentage points, from the annual interest rate equivalent.

Mr. BELL: But over a considerable volume it might give a comparison that would be worth-while.

Mr. LISTON: It would certainly enable you to compare retailer with retailer.

Mr. MANDZIUK: Is not that what the consumer wants, to be able to compare and go shopping to five, ten or fifteen of your members and have a comparative cost on the article he buys? That is the whole secret that we have been trying to delve into, and you say it is impossible to compute the difference. The common man like any of us here wants something that he can understand.

Co-Chairman Senator CROLL: Mr. Scott.

Mr. SCOTT: I am sorry, Mr. Chairman, but I have to attend another meeting. However before leaving I wanted to put in a plug to have these gentlemen re-attend on another occasion.

Co-Chairman Senator CROLL: That is going to be difficult. Our agenda is rather crowded. We have no idea how long we may be sitting. However they are going to furnish us with further information as requested which we will have for the record. Perhaps there has been enough light cast on the subject for today.

Mr. SCOTT: I am in complete darkness.

Mr. MANDZIUK: I second Mr. Scott's suggestion. Even if we take a different day from Tuesday I think we should give them an opportunity to make themselves clear to us.

Co-Chairman Senator CROLL: Before we finish, the steering committee will think about that.

Mr. URIE: One important question remained unanswered. You have agreed that the monthly percentages can be supplied on cyclical accounts but not on instalment accounts. I must say I still do not follow the reason for that. Can you try to help a poor unmathematical lawyer?

Mr. LISTON: It is part of our submission.

Mr. ERWIN: I think perhaps the easiest way to explain this is to say that in an instalment type of account the carrying charges are pre-determined and calculated at the time of the sale.

Co-Chairman Mr. GREENE: On an instalment type of account could you state it in simple annual interest?

Mr. ERWIN: On original or first purchases, you could.

Co-Chairman Mr. GREENE: And would it be feasible to have legislation which would cover the entire field and which would have two separate ambits of disclosure, one for cyclical accounts which would be defined in the legislation and which would order the disclosure of interest on the monthly instalments you have stated to be possible, and for all other credit to be shown in simple annual interest?

Mr. ERWIN: No.

Co-Chairman Mr. GREENE: Why not?

Mr. ERWIN: Because of the add-on privileges permitted on instalment accounts.

Co-Chairman Mr. GREENE: So that if you have an original purchase and then some further purchases on an investment type of account you would have to tell the purchaser what the rate of interest was for each separate purchase. Is that your objection?

Mr. ERWIN: You would have to have a separate contract for each one.

Mr. URIE: Did I understand you to say this, that as of today on an instalment account if after the first purchase there is a subsequent purchase made you make a rebate for all the unexpired portion of the service charge which remains on the original purchase which brings you back to the balance of the original price, and then you add on to that the cost price of the new article so that you have a new total, and then you determine from that new total

what the charge will be thereafter? Now, why then is that any different from the original purchase? If you can express that as a percentage, why can you not express it as a percentage from the beginning?

Mr. LISTON: Because it changes the original percentage you quoted. The rate you quoted six months ago as being true is no longer true.

Mr. URIE: That, of course, will have to be made known because it is no longer applicable and then you have to give the monthly interest service charge element.

Mr. ERWIN: This is quite true.

Mr. URIE: It could be done?

Mr. ERWIN: Yes.

Mr. URIE: Just as on a cyclical account.

Mr. ERWIN: No.

Mr. URIE: Not exactly. But you say on a cyclical account you can express it as a percentage and I say that on an instalment account you can do the same.

Mr. ERWIN: Not monthly, but annually. I am referring to the way our company does it. When I give this evidence here it is not on behalf of the Council because there are other members who do it differently.

Mr. URIE: What you speak about is what is done in your company at the present time.

Mr. McKICHAN: Dealing with this aspect, it is significant that the position of the smaller merchant would be of importance. We might be faced with considerable difficulty if we had to make this type of calculation.

Mr. URIE: Could it be done from tables?

Mr. McKICHAN: This is a possibility.

Mr. ERWIN: Are you familiar with the ways some of the others do it, Mr. Liston?

Mr. LISTON: I am not too familiar with them. Our own company would not be too much concerned about the instalment account because of the trend towards the cyclical type of account, but I am not really knowledgeable as to the way the smaller merchants figure these things.

Co-Chairman Mr. GREENE: Has your delegation any views as to whether any possible legislation in this area should include charts or computations to be used. Should these be part of the legislation? Have you any thoughts with respect to that?

Mr. LISTON: We feel—and I think this has been said in the submission we have made—there are certain ground rules that have to be spelled out. There would have to be formulae and certain rules that would have to be followed.

Mr. URIE: That is right; there would have to be an inclusion of tables of charges.

Mr. LISTON: And where payments will apply when you have multiple purchases?

Mr. URIE: Yes, everybody would have to be treated alike.

Mr. LISTON: Yes.

Co-Chairman Senator CROLL: Some of you are familiar with the Alberta legislation, which has not yet been proclaimed, which indicates that the Government contemplates upon proclamation to lay down a formula.

Mr. McKICHAN: We are aware of the legislation, but that legislation specifically exempts the cyclical type of accounts from its provisions. We have further knowledge that the Alberta Government has so far experienced a great

deal of difficulty in trying to arrive at a formula which will be suitable for use in respect of all types of accounts. There are very real difficulties that present themselves, and these so far have not been resolved.

Co-Chairman Senator CROLL: Mr. Erwin, the consumers association left with us one of these cards with respect to revolving credit accounts of the T. Eaton Company. We were informed that they were used in Quebec and in Saskatchewan.

Mr. MACDONALD: Only in Montreal now, I think.

Mr. ERWIN: Yes, and just the Montreal store.

Co-Chairman Senator CROLL: It has been used in other parts of the country, but it is not now being so used?

Mr. ERWIN: Not that specific type of account. The revolving type of credit account has been used in other parts of the country on a six-month basis, and this is on a twelve-month basis.

Co-Chairman Senator CROLL: But it is not now being used except in the city of Montreal?

Mr. ERWIN: That is correct.

Co-Chairman Senator CROLL: Can you tell us why it is not being used in other places apart from the city of Montreal?

Mr. ERWIN: This revolving credit account is the type of account in which the customer agrees to pay a certain amount per month, and then she is permitted an amount of credit up to twelve times that amount. If she wishes to pay \$20 a month then she may have credit up to \$240. It has certain limiting features, as you can appreciate. Under our budget charge type of account the balance is not restricted in that same way. We set credit limits on what we estimate the customer should be permitted to buy, and the payments are determined from that.

Co-Chairman Senator CROLL: You are explaining the account, but you have not answered my question. You have used this type of account in other parts of the country, but now you are using it only in Montreal. Why is that?

Mr. ERWIN: The main reason for abandoning it in other places was to enable us to go on to the budget charge type of account.

Co-Chairman Senator CROLL: But what is the difference in the credit?

Mr. ERWIN: The only difference in the credit is, as I say, that you relate a fixed credit amount to a monthly payment.

Co-Chairman Senator CROLL: Why do you not do it in Toronto?

Mr. ERWIN: I cannot give you a reason why we do not do it in Toronto. May I put it this way; I think merchants generally consider that a different type of credit is required in Montreal. Other retailers are using this, and this is one reason why we are also doing it.

Mr. MACDONALD: Mr. McKichan, do any of your members have related companies to which customers' obligations are discontinued?

Mr. MCKICHAN: This is correct, sir; they do.

Mr. MACDONALD: Do any of those companies represented here today have those arrangements?

Mr. LISTON: Do you mean the selling of paper to outside finance companies?

Mr. MACDONALD: No, to a related company.

Mr. MCKICHAN: Yes.

Mr. MACDONALD: They all do?

Mr. SIMMONS: Walker's do not.

Mr. MACDONALD: Do any of the members of your association have captive finance companies such as are mentioned in the Income Tax Act?

Mr. McKICHAN: To the best of our knowledge they do not. I know that some of our companies have their credit departments run by sales finance companies. That is, they have a sales finance company running their entire credit operation. Some of our smaller members will discount their paper or sell their paper to a sales finance company.

Mr. MACDONALD: There are, then, substantial working agreements between the members of your association and sales finance companies, whether related or unrelated?

Mr. McKICHAN: I am not familiar with the relationships in detail, sir. We commented particularly on the situation with respect to the cyclical type of credit account because in respect of volume it is the most significant. We realize also that the problems in respect of it are more significant. It is for these reasons that we dwelt on this to the greatest extent in our brief.

Mr. MACDONALD: What you are saying is that the cyclical type of account is carried in the portfolio of the retail sales company all the way through from the inception of the obligation to its discharge?

Mr. McKICHAN: I think some of the companies whose credit operation is maintained by outside contractors, as it were, have the cyclical type of plan.

Mr. MACDONALD: So that those obligations are discounted or transferred to the outside firms?

Mr. McKICHAN: Yes, but I am not familiar with the details of the working arrangements between them.

Mr. MACDONALD: What would be the purpose of discounting them, or getting them out of your own portfolio?

Mr. McKICHAN: Do you mean in respect of the companies which maintain an associated acceptance company?

Mr. MACDONALD: Yes.

Mr. McKICHAN: I think the companies themselves can best answer that question.

Mr. ERWIN: In the case of the T. Eaton Company which, as you know, is a private company, it is a method of financing our accounts without disclosing our own private balance sheet.

Mr. MACDONALD: So you raise public money on the balance sheet of your subsidiary to which the accounts are discounted?

Mr. ERWIN: Yes. I do not know whether the word "discount" is correct or not. It is a straight sale.

Mr. MACDONALD: A straight sale at the face value?

Mr. ERWIN: Yes.

Mr. BELL: Can I ask one more question, Mr. Chairman? If you explore new methods of encouraging cash sales what new advantages will you hold out to the consumer who wants to pay cash?

Mr. McKICHAN: I think again this is a question that can be best answered by the representatives of the companies.

Mr. LISTON: I think it would depend upon the credit facilities offered by the company.

Mr. McKICHAN: Perhaps we can file an answer to that question.

Mr. BELL: There are groups of people in your stores who do research on methods of encouraging cash sales; is that not true?

Mr. McKICHAN: I think this would be true of every company. I think all the media retailers customarily use to advertise their wares now-a-days promote credit and cash sales.

Mr. MACDONALD: What you are saying is that the person who wants to pay cash is not looked down upon by the store?

Mr. McKICHAN: This is very true.

Co-Chairman Mr. GREENE: If as you say, this credit business is not profitable at times is it not odd that there are not very specific sales promotions along the lines of promoting cash sales which are, of course, profitable?

Mr. ERWIN: If I may answer that I will say that when we are talking about that profitability we are talking only about the financing end of it. There is still a merchandising profit—at least, I hope there is.

Co-Chairman Mr. GREENE: But, according to the evidence, as I understand it, it is very likely that you would make more money on a cash sale because some of the financing is non-profitable or at best is just marginally profitable.

Mr. McKICHAN: I think our members feel they would not make many sales were it not for their credit operation. To the extent that more sales are made then the benefit is also reflected to the cash customer, because the store becomes more efficient and can offer its goods at lower prices.

Mr. McCUTCHEON: To what other segments of our economy do you attribute fault for this tremendous upsurge in credit buying that has taken place? Has there been a weakness in some other form of our system of banking and financing? Do any of you gentlemen have any comments on that?

Mr. McKICHAN: I think it is significant, or at least relevant, that the growth in lending by the banks has outstripped the growth in credit lending by the department stores. So this would seem to indicate that in fact customers can explore the possibilities which are open to them. The increased use of credit I think is largely explained by, the matters which I mentioned before: the growth in the population, the growing living standards, the habit developing, if you like, of people who find that they can, perhaps at the end of the year actually save money by having more labour saving devices, thereby investing more of their money in capital goods and less of their money in services. I think these are all elements which come into the picture. This particular aspect of the situation was dealt with in the Royal Commission Report.

Mr. McCUTCHEON: In other words, what you are saying and what I have put is, that there was not any particular use for this great granting of credit, or our social structure was more or less adequate but it was a good idea for the soft sell, I mean, to turn over more merchandise. That is, in effect—

Mr. McKICHAN: To the extent that it sells more it serves to enhance the economy. I think that is desirable.

Mr. McCUTCHEON: Thank you.

Mr. MACDONALD: I would like to confirm one point which I raised about the question of privilege and the meaning of this exhibit. If we are to make a meaningful consideration of it, we might require some of the witnesses back, that is, that some of the gentlemen may consider returning to answer questions on this complicated exhibit, either from our advisors or from members of the committee.

Co-Chairman Mr. GREENE: Is it possible that, if required, some of you gentlemen could return, especially those who are particularly versed in the supplementary portion?

Mr. McKICHAN: Mr. Chairman, we shall be very happy to do this. I apologize to the committee for the late filing of this document. Part of the information included in it resulted from our knowledge of the evidence given in the appearance of the Canadian Chamber of Commerce before you. In our exhibit we attempted to answer some of the points brought up as a result of that hearing.

Mr. MACDONALD: You have undertaken to answer some points to the committee. I presume that by protocol these answers would be directed to the chairman?

Co-Chairman Senator CROLL: It will be sent to the clerk, and our staff will make a study of it. Then Mr. Urie will offer his comments. They may be available even next week, if we need them. These gentlemen have have undertaken to come if we require them.

Co-Chairman Mr. GREENE: Gentlemen, if there is nothing further, I would like to thank you for your attendance here and for your help to the committee. I do not need to tell you that this is a difficult field and one that has been mooted often in the past without much success either provincially or federally. I can assure you no one is anxious in any way to upset a retail business of the sort, which seems to be concerned in this area. We appreciate that the well-being of the economy is to a very large degree tied up in the effectiveness of our retail sales. I think the legislators generally are of the mind that the consumers of credit must be appraised of the cost of credit, just as simply and effectively as they can tell now the price of the product itself. How we reach that happy end is not easy. I certainly think we need all the help we can get from the retail people. You are the people who have the research agencies. You have the best minds in this area. May I, in all humility, urge you to direct your research to this end that I think we all want to reach. I do not believe for one moment, as this newspaper article says, that retailers deliberately wish to hide the cost of credit. I think retailers are disturbed as you have indicated, that a complete change in your *modus vivendi* in this area may affect your sales or affect the effectiveness of your doing business; or may affect your cost of accounting. This is what you are disturbed about, not with the end of hiding the actual cost of credit. May I again urge that all your research be put to the direction of finding some ready method by which the consumer can tell the cost of his credit as simply and readily as he can tell the cost of the product. If you can arrive at some formula whereby this can be done without affecting your costs of accounting and without the effect of cutting potential sales, I think we can reach the goal at which we are striving. We are working towards that end and very much appreciate your co-operation in our request. We again thank you for coming and for the information you have given to us.

The committee adjourned.

APPENDIX "H"

SUBMISSION TO THE SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

OTTAWA

November 17, 1964

Retail Council of Canada
Suite 701-159 Bay Street
Toronto 1, OntarioSummary of Submission of Retail Council of Canada to the Special Joint
Committee of the Senate and House of Commons on Consumer Credit*(Numbered References are to Council's Main Submission)*

1. Retail Council of Canada is a national trade association, whose members perform some 30 per cent in volume of Canada's retail 'store' trade. The Council was formed for the purpose of representing its members to governments at the Provincial and Federal levels, and generally to promote the interests of the trade in Canada. (Page 1, para. 1)

2. The Council welcomes the opportunity of appearing before this Committee because the subject of the Committee's study is of vital importance to the health of the retail trade and, by extension, to the economy as a whole. (Page 1, para. 2)

3. The Council concurs in those parts of the recent report of the Royal Commission on Banking and Finance, which concluded that most Canadians "have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living." The Council believes that the current levels of consumer borrowings should not arouse concern. It is our view that the Royal Commission in making recommendations regarding the disclosure of simple interest rates on all types of credit account including cyclical accounts had not given sufficient consideration to the problems involved. In any event this subject was only on the periphery of its area of inquiry. The Council does not concur with that part of the Commission's report. (Pages 1-9, paras. 3-9)

4. A recent decision of the Supreme Court of Canada, Attorney-General of Ontario vs. Barrfried (1963) S.C.R. 575, testing the validity of the Ontario Unconscionable Transactions Act, appeared to place the primary responsibility for the regulation of contracts covering the financing of the sale of consumer goods in the hands of the Provincial Governments. The Council is aware that the Committee is seized with the constitutional problem. (Pages 5-6, paras. 12-15)

5. The two most important types of contract employed by our member companies granting credit services are quite different in nature from those used by other credit granters, and in the view of the Council are incapable of being classified with these other types of account. Both types of account, referred to as "revolving" or "cyclical" plans and "budget" or "easy payment" plans, contemplate that a number of purchases will be made on the account, and in fact, this expectation is borne out in the great majority of accounts opened. (Pages 6-11, paras. 16-22)

6. Before either type of account is opened, care is taken to ensure that the customer is aware of his responsibilities and will be capable of assuming them. Close supervision of the customer's use of his account continues during the duration of its operation. (Pages 7 and 10, paras. 19, 22 and 25)

7. Control of the amount borrowed and the customer's mode of operation of the account is firmly exercised by the retailer. Bad debt losses are minimal. (Page 12, paras. 27-29)

8. Retailers state service charges on the basis of a dollar charge on the monthly amount outstanding or a percentage charge on the monthly amount outstanding. They believe that this system of stating charges provides their customers with meaningful information. It is not practicable or possible to quote simple annual interest rates on purchases made on cyclical or 'add-on' types of account. The impracticability occurs because charges vary with the amount of the outstanding balance and it is impossible to forecast the customer's future buying and payment habits. The purchaser can affect the amount of the charges by the date and the amount of his purchases, the time he chooses to make his payments and the size of his payments. (Pages 12-14, paras. 30-33)

9. None of the formulae suggested for use in converting credit service charges into simple annual interest rates can be applied to cyclical accounts. In no jurisdiction within Canada or the United States has it been possible to devise legislation which would enable simple annual interest rates to be quoted on these types of accounts. It has been demonstrated to the Government of Manitoba, Alberta and many of the states in the United States that application of such legislation is not possible. These Provinces and States have accepted the position. Legislation which did require the expression of simple annual interest rates on all types of credit account would require retailers to abandon cyclical-type accounts and probably bring about severe repercussions in the national economy. (Pages 14-15, paras. 34-35)

10. Furthermore, no effective means has yet been suggested of preventing vendors from concealing part of the price of credit in the price for the article sold. (Page 15, Para 36)

11. In its main submission, the Council quotes the recommendations for the protection of purchasers which it made to the Ontario Select Committee on Consumer Credit. (Pages 19-20, Para. 44-45)

12. The Council and its members will be very willing to co-operate with the Committee or its consultants in any further studies they wish to undertake.

The Honourable Senator David A. Croll,
Mr. J. J. Greene, M.P.,
Joint Chairmen,
The Special Joint Committee of the Senate
and House of Commons on Consumer Credit,
Ottawa, Canada.

Gentlemen,

1. Retail Council of Canada is a national trade association whose members among them perform some 30% in volume of the retail store trade carried on in Canada. The Council was formed for the purpose of representing the interests of its members to governments at the Federal and the Provincial levels, and generally to promote the interests of the trade in Canada. A list of its members will be filed as an Exhibit with the Committee.

2. The Council welcomes the opportunity of appearing before this Committee because the subject of the Committee's study is of vital importance to the health of the retail trade and by extension, to the economy as a whole.

Role of Consumer Credit in the Economy

3. A considerable body of evidence was presented to the recent Royal Commission on Banking and Finance on the growth of total credit, and in particular, consumer credit over the years since 1945. The Council's predecessor organisation—Canadian Retail Federation—presented a submission to this Royal Commission which set out the industry's views on this subject. The viewpoint advanced by the Federation can be summarised as follows:

The vigorous growth in consumer credit which had taken place since the war due to:

- (a) the pent-up demand which existed in the immediate postwar years because of restricted production during the war, and economic difficulties prior to it;
- (b) the high level of family formation which existed in the immediate postwar years;
- (c) the growth in the population brought about partly by natural increase and partly by the resumption in the flow of immigrants;
- (d) the growth in per capita production which enabled employers to increase wage levels at a rate which exceeded the rate of inflation;
- (e) improved living standards which in turn meant that Canadians were able to satisfy the necessities of life by the expenditure of a smaller percentage of their income, freeing a larger share for the purchase of consumer goods (many of them purchased on credit);
- (f) the increasing development of credit buying habits among the population as inbred prejudice against the use of credit was overcome and appreciation of the fact that credit purchases combined elements of both spending and saving;
- (g) the growth in the number of and improvements in the appearance and performance of appliances and other goods for domestic consumption.

4. The Report of the Royal Commission was in substantial agreement with the industry's analysis of the causes of the credit expansion and it expressed the view that the level of credit borrowing then current was by no means disproportionate to consumers' current earning power, their total assets and the gross national product.

5. In its submission, the Federation forecast that the high rate of family formation anticipated during the 1960's (as a result of the coming to maturity of the 'war babies') would precipitate a sharp increase in the use of consumer credit. The industry expressed the view that

"such a situation should not be a cause for alarm as long as the proper ratio of debt to future earning power is maintained and the estimated future earnings are realized."

6. The current sustained period of business expansion is no doubt, in part at least, responsible for the anticipated increase in the use of credit occurring some time earlier than was anticipated. The Council's members believe that there is no reason to be concerned regarding current levels of consumer borrowings. They believe that their customers' income prospects and current liquid assets fully justify the current level of borrowings. Their belief finds support in the fact that defaults on accounts are running at a very low level indeed.

7. The Federation also expressed the view to the Royal Commission:

- (a) that the returns, both in convenience and economy, which consumers derive from the ownership of household goods is substantial; and
- (b) that most Canadians manage their borrowing, and their finances in general, with more wisdom than is often believed.

So far as (a) above is concerned, it was stated in the Royal Commission Report:

"Investment in household equipment returns a substantial part of its yield in terms of reduced labour and increased convenience for the housewife or—in the case of automobiles, television sets and record-players—increased enjoyment. Returns can, however, also be calculated in monetary terms—e.g. in the case of television sets, the money saved on baby-sitters' fees and outside entertainment; in the case of home laundry equipment, returns can be calculated in terms of the saving on laundromat bills. Recent studies indicate that such returns can be substantial—even when no allowance is made for savings of the housewife's time and energy—that investment in durable goods can therefore be justified in purely economic terms, and that household borrowing for such purposes is rational and 'productive'. While not wanting to push this argument too far, we find this an interesting and by no means unreasonable point of view."—(Report of Royal Commission on Banking and Finance, 1964—Page 22).

Dealing with (b) above, it was stated:

"Our studies indicate that by and large Canadians manage their finances with greater wisdom than appears to be popularly believed. Most households appear to have a reasonable pattern of assets in relation to their family needs, income and risk-taking ability. Most, too, have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living." (Report of Royal Commission on Banking and Finance, 1964—Page 31).

8. At this point, it should perhaps be mentioned that the Council does not endorse that part of the Commission's Report which expressed the belief that it should be possible to devise a means of quoting charges for all forms

of borrowing on a simple interest rate basis. The Royal Commission's Report did not attempt to demonstrate how this could be done in respect of cyclical accounts or budget accounts with 'add on' privileges. The Council will deal with the difficulties which present themselves in this area later in the submission. It is assumed that the subject which was only on the periphery of the Commission's area of enquiry was not closely examined by it.

9. Despite the fact that public demand for the provision of credit services and the satisfaction of this demand may run counter to pioneer notions of thrift and frugality, the development has certainly been responsible in part for a large measure of the relative prosperity of Canadians. It has given impetus to the general expansion of retail trade and by extension, the manufacturing and service industries, so benefitting the economy as a whole.

Control of the Credit Granting Process—The Constitutional Aspect

10. Current interest in the consumer credit field seems to stem partly from the periodic public exposure of unethical, and in some instances fraudulent, lending practices perpetrated by certain categories of individuals and firms in the credit field, partly from the belief that some consumers are ill-informed in the handling of credit and partly from interest in the subject evident in other countries, especially the United States and Great Britain. It is worth noting, in parenthesis, that to the best of the Council's knowledge, none of the recently disclosed instances of malpractice in the credit field has involved merchants engaged in business in the 'store' trades.

11. Naturally, those concerned with this problem have concluded that one of the best ways of ensuring members of the public do not become involved in unconscionable transactions is to ensure that the nature and terms of the contract are fully made known to the prospective borrower. One of the most important circumstances affecting a contract for the loan of money or the financing of a purchase is the charge being made for the money lent. In certain types of contract, such as mortgages or loans of a fixed amount of cash, the charge can be expressed in terms of a simple annual interest rate. This fact has led many people, including legislators, to seek a means of expressing all loan charges in simple annual interest rate terms so that expression of the charge in this way could be made mandatory. As will be explained below, the Council does not believe that any accurate conversion of a money charge to a simple annual interest rate can be made in respect of the type of credit accounts which comprise the major part of the credit granted by our members.

12. As the Committee will be aware, various of the provinces have enacted, or have been considering, legislation designed to protect the public from unscrupulous lenders. Legislation similar to the Ontario Unconscionable Transactions Act has been passed in Alberta, Manitoba, Nova Scotia and Quebec. In addition, Alberta and Manitoba introduced legislation which had as part of its aim the mandatory disclosure of interest rates. As will be described later, the interest rate disclosure sections of the Manitoba and Alberta legislation have not been implemented.

13. The decision in the recent Supreme Court case, Attorney-General of Ontario vs. Barrfried (1963) S.C.R. 575 testing the validity of the Ontario Unconscionable Transactions Act appears to place the regulation of the terms of contracts covering the types of accounts with which the retail trade is chiefly concerned, in the hands of the provincial governments.

14. In the Ontario Unconscionable Transactions Relief Act, the constitutionality of which was considered in this case, power was given to the Court to consider "the cost of a loan" and "cost" was defined as

"—the whole cost to the debtor of money lent and includes interest, discount, subscription, premium, dues, bonus, commission, brokerage fees and charges—"

The Court held that while the Federal government clearly had the power to legislate in regard to rate of interest, this legislation could not be characterised as legislation limited to interest considerations. Of the list of charges appearing in the definition only 'interest' and 'discount' had the features of day-to-day accrual which characterised a true interest charge. The Court held the subject matter of the Act within the legislative authority of the province. As will be explained later, it is clear that, legal definitions apart, service charges applied against customers' accounts in the retail industry bear little resemblance to the common concept of interest charges.

15. Whatever the constitutional situation, and the Council is aware that the Committee is seized with the problem, it is believed that it would be of interest to the Committee if it were to describe to it the chief characteristics of the types of account with which its members are mainly concerned, and the attitude it takes towards the proper regulation of these accounts.

Credit Services for Which a Charge is Made

16. Prior to the war, sales by retailers on "time or instalment payment terms" were principally in larger items of durable goods: pianos, refrigerators or large pieces of furniture. Each sale required the completion of a separate contract in which the goods were listed and described, the terms and conditions of payment set out and the rights of the vendor to repossession of the goods detailed. If another purchase was made, the same procedure was repeated and the buyer entered into a new contract, again showing the goods in detail, the terms, etc. Some retail firms found that some classes of their merchandise were very infrequently purchased for cash and that the prime interest of the customer was: How much down? How much per month? For how many months? These firms began to quote prices not as "cash" prices but as a price that included all credit service charges. Thus a set of bedroom furniture would have no cash price but be priced as "down payment \$25.00 and 18 monthly payments of \$20.00 each". If a purchaser wished to pay cash initially or to pay up the balance part way through the contract, the amount of discount (if any) off the time price would often be the subject of bargaining.

17. A second development was the practice of some firms of putting part of the charge for the instalment payment service on the price of the article and some as a direct charge. This technique enabled a firm to advertise "instalment terms at 5%". The additional cost of the artificially low credit terms was of necessity reflected in the price of the article sold.

18. Most retail firms have abandoned these practices. The Council has some fears that legislation requiring the expression of credit charges in the form of annual interest rates (assuming such legislation were susceptible of being implemented) would encourage a return to this practice. The common practice today is that the public is given a cash price and the amount of the instalment service charges; in addition, types of accounts have been developed to afford an opportunity to purchase a wide variety of goods and to provide quick, efficient service.

Cycle Credit

19. One type of account quite widely adopted is known by a variety of names, (e.g. revolving credit, etc.) but here called cycle credit. To demonstrate, the system used by one junior department store organisation with branches throughout Ontario will be examined:

- (a) The customer seeking credit goes to the Customers' Accounts Office where he or she discusses with a trained worker the customer's requirements. (In small stores this function may be performed by the manager or assistant manager.) The interviewer obtains from the customer and other sources details of income, family and other obligations, etc. The store employee seeks to have the customer recognize that on the basis of the family income, wise use of credit requires the family to limit its credit purchases so that the monthly payments will not be onerous.
- (b) The application is then checked for accuracy and supplementary information is obtained from Credit Bureaux or other reporting agencies and direct investigation of facts reported by the customer. The paying habits of the customer are checked and the employment information is verified. While the capacity to pay and the net worth are important, basically the acceptable credit risk must have a good record of meeting his financial obligations as they fall due. The credit authoriser will make a decision based on his experience and the available information regarding the particular applicant mentioned above.
- (c) The account being opened, the customer receives a card authorizing purchases, a brochure explaining the operation of the account incorporating the minimum monthly payments that are applicable.
- (d) If the customer makes purchases on the account, and pays for them within 15 days after the monthly billing date, no service charge is applied.
- (e) Each 30 day period the customer receives a statement of the previous period's balance, the purchases made in the current period, any payments and the balance outstanding at the end of the period. Also shown is the service charge. On the back of the statement is printed the service charge rate table. A note on the statement points out that the customer may reduce service charges by increasing the amount paid. A copy of both sides of a customer's statement form appears on the following page.

20. It will be noted that the size of the service charge is not directly variable with the size of the outstanding balance. Proportionately the charges are higher for small than for large outstanding balances. This pattern of charges reflects an attempt to introduce a reasonable relationship between the costs which retailers experience in providing a credit service and the charges which they make for this service. Under this system a customer by making new purchases or by paying part of his account moves into a new balance bracket and the effective rate of the service charge he pays is liable to change.

21. Certain retailers quote the interest charges by way of a percentage per month of the outstanding balance but again changes in a customer's balance caused by payments or purchases are liable to alter the monthly rate of charge which the customer pays. Some retailers, however, maintain constant monthly rates regardless of the size of the balance.

WALKER'S


STATEMENT OF ACCOUNT

DIVISION OF GORDON MACKAY & CO. LIMITED
BOX 532 - TORONTO 15, ONTARIO

AMOUNT PAID

\$ _____

PLEASE DETACH AND RETURN THIS STUB WITH PAYMENT
TO YOUR LOCAL WALKER'S STORE

BILLING DATE	PREVIOUS BALANCE	SERVICE CHARGE	PURCHASES	RETURNS	PAYMENTS	BALANCE
<p>THIS STATEMENT COVERS TRANSACTIONS FOR ONE MONTH ENDING ON THE BILLING DATE SHOWN ABOVE.</p> <p>.</p> <p>PAYMENTS, RETURNS AND PURCHASES MADE AFTER THE BILLING DATE WILL APPEAR ON YOUR NEXT STATEMENT.</p> <p>.</p> <p>SALES CHECKS AND CREDIT ITEMS FOR THIS PERIOD ARE ENCLOSED. PLEASE PRESENT THEM WITH THIS STATEMENT IF THERE IS ANY ENQUIRY.</p>						 SEE TERMS BELOW

WALKER'S PLAN ACCOUNT TERMS

- 1 AS A 30 DAY CHARGE ACCOUNT
- Simply pay your account in full each month when statement is rendered.
- 2 AS AN INSTALMENT ACCOUNT
- Refer chart on reverse for schedule of minimum monthly payments and monthly service charge.

PAYMENT IN FULL OR INSTALMENT MUST BE MADE WITH 15 DAYS
OF STATEMENT DATE

SCHEDULE OF MINIMUM MONTHLY PAYMENTS

If your account balance is	00— 80.00	80.01— 100.00	100.01— 120.00	120.01— 140.00	140.01— 160.00	Over 160.00
Your minimum monthly pmt. is	10.00	12.50	15.00	17.50	20.00	1/8 of A/C Bal.

SERVICE CHARGE CHART

If Previous Account Balance Is	The Monthly Service Charge Will be	If Previous Account Balance Is	The Monthly Service Charge Will be
Bal to \$ 5.00	\$.10	\$120.01 to \$130.00	\$1.85
\$ 5.01 to 15.00	.15	130.01 to 140.00	1.95
15.01 to 25.00	.30	140.01 to 150.00	2.05
25.01 to 35.00	.45	150.01 to 160.00	2.20
35.01 to 45.00	.60	160.01 to 170.00	2.35
45.01 to 55.00	.75	170.01 to 180.00	2.45
55.01 to 65.00	.90	180.01 to 190.00	2.55
65.01 to 75.00	1.05	190.01 to 200.00	2.70
75.01 to 80.00	1.15	200.01 to 210.00	2.80
80.01 to 90.00	1.30	210.01 to 220.00	2.90
90.01 to 100.00	1.45	220.01 to 230.00	3.00
100.01 to 110.00	1.60	230.01 to 240.00	3.10
110.01 to 120.00	1.70	240.01 to 250.00	3.20

You can save on service charges if you pay more than the required minimum monthly payment

"Budget" or "Easy Payment" Plans

22. The second type of account currently in use by Council members is often called a budget or easy payment plan. The example is the system in use by a large Toronto retailer:

- The customer makes his merchandise selection and is sent with the sales slip to the "Customers' Accounts Department".
- An interviewer discusses and explains and proposed contract with the customer and makes inquiries respecting credit responsibility. A credit worthiness check, similar to that described for credit accounts, is carried out.
- If the credit is authorised, the customer receives from the credit department, a payment book, the first page of which sets out the price less payment then made, the credit service charge, the balance, the monthly payment and the date of the month on which it is to be made. The contract reserves title in the merchandise until payment is made.

(d) The customer has the opportunity to make further purchases on the same account. When the customer makes another purchase, the clerk making the sale telephones the Accounts Office, and if the sale is authorised, the customer receives a new memorandum setting forth:

- (i) cash price of new purchase,
- (ii) the credit service charge,
- (iii) price adding (i) and (ii),
- (iv) the deposit,
- (v) the balance on this sale,
- (vi) the old balance,
- (vii) the new balance,
- (viii) the monthly payment required.

The new purchase may well have the effect of altering the effective rate which the customer pays.

- (e) If the customer wishes to pay up the account before the normal maturity, a proportion of the service charge is remitted.
- (f) Variants in this type of plan include those which involve a modified payment schedule to meet the convenience of the customer. Plans are evolved for seasonal workers, farmers, etc., to enable them to make payments only during their periods of high earning.

Other Types of Credit Account

23. Other types of account commonly used in the trade are the 30-day charge account and the contract for the financing of individual sales without add-on privileges. The mode of operation of the former account is probably well known and because no charge is applied for the credit extended it is, we feel, unnecessary to dwell on its characteristics. Individual financing contracts without add-on privileges probably comprise a very small percentage of the total volume of credit extended by our members. While some obvious difficulties would be experienced in expressing the dollar finance charges on these contracts in percentage figures, the difficulties would not be of the same order as those affecting cyclical accounts and budget accounts with add-on privileges.

24. It is significant that most retailers reject a considerable percentage of the applications for credit made to them.

Control of Credit Accounts

25. Control of all types of credit account can be firmly exercised. Under the '30-day charge' or cyclical type of account, it is usual practice to issue an identification card or plate that permits the customer to make smaller purchases without the necessity of reference being made to the Credit Department. Until an account is thoroughly established or if the degree of risk warrants more control, a 'restricted' identification card is used, so that each individual purchase must be authorised. A "Purchase Record" slip is used to record authorised additions to the account and this form is destroyed when the actual sales bill is processed.

Under the 'Budget Charge' or 'Easy Payment' type of plan, the authorised balance is controlled by the good judgment of the authoriser. The customer's record is reviewed as additional purchases are made to avoid having the customer obligated beyond his estimated ability to pay. If some time has elapsed since the account was opened, an up to date report may be obtained from the Credit Bureau.

Billing Accounts

26. With 30-day charge or cyclical type accounts all transactions—both debits and credits—are accumulated and billed once a month. The customer has complete details of all transactions on the account. With 'Budget' or 'Easy Payment' type accounts the customer receives a new memorandum on the completion of each purchase.

Collections

27. When sufficient care has been devoted to the approval of a customer's credit application, few collection problems are likely to develop. The great majority of customers are honest and do not obligate themselves beyond their ability to pay.

28. Strict collection policies and prompt follow-up of overdue accounts, together with careful authorisation criteria, reduce bad debt losses to a minimum. As was mentioned previously, bad debts are currently running at a very low level, and on average, bad debts represent a very small percentage of total credit sales. Losses are not usually due to poor investigation at the time the account is opened, or to inadequate control, but rather to unavoidable changes in the customer's circumstances, such as ill-health or loss of employment.

29. In such cases, it is the general practice in the industry for members of a store's credit department to discuss some feasible basis of repayment with the customer, usually extending the terms of his original contract in an effort to assist the customer to meet his obligations over a difficult period. Retailers certainly prefer this method of reaching an amicable arrangement.

Methods of Stating Credit Charges

30. As was mentioned above, suggestions have been made by a considerable number of groups and individuals that service charges on all consumer credit sales should be stated in the form of an annual rate of simple interest. The main arguments advanced in support of the suggestion are:

- (a) That all service charges are in fact interest and should be stated as such;
- (b) That statement of service charges as interest rates enables the purchaser to purchase credit by the use of the principles of comparison shopping.

31. Interest can properly be regarded as the price charged for forbearance of payment. It represents a bare cost of money factor. The rates for money lent on mortgage are generally expressed in simple interest rate terms. However charged separately are the legal fees for the preparing of the loan documents, the costs of examining the title of the property mortgaged, fees which are generally assessed if repayment is made before maturity, capital bonus, if any, and all other fees for beginning or ending the loan. The retail credit account service charge is very different from mortgage interest. The period of payment is shorter, the amounts involved are much smaller, and they constantly vary because of new purchases and payments. There is no durable asset comparable to land as security. All costs in connection with the documentation, and continuous servicing of the account are included in the credit service charge. In fact, compensation for service costs significantly outweigh the pure interest component in consumer service charges.

32. Retailers are not in the money-lending business. Purchasers demand credit services and the provision of these credit services represent real and

additional costs which are reflected in the charge made for these services. It is the usual practice of retailers in Canada to state credit charges either in dollars or as a percentage on the amount of the monthly balance. It is believed that even if it were possible, the quotation of service charges as simple annual interest rates would not significantly improve a customer's ability to shop for credit. If he were comparing the typical credit service offered by money-lending institutions with a revolving or 'add-on' account he would be comparing two unlike services. From the retailer, he has the opportunity of financing a multitude of small purchases under one omnibus contract. An organisation in the money-lending business would normally only be willing to lend fixed sums over specific periods. In the case of credit made available in association with the purchase of some durable article, there would always be a danger that a requirement for the expression of simple interest charges would lead certain firms to deflate the true cost of the credit charge and inflate the price of the goods sold. While competition would probably ensure that this practice was not adopted in the case of articles of comparatively low value, it might well be evident in the sale of comparatively valuable items where numerous small differences in quality or in the number of accessories in the products offered by different manufacturers make it difficult for the layman to arrive at an exact determination of their respective values.

33. A concrete example might be helpful. Let us assume that the price of a television set is \$400.00, with a down payment of \$100.00, leaving \$300.00 principal to be financed. On a 24-month contract, the dollar service charge might be, say, \$54.00, and the time-sale balance \$354.00. The annual rate of charge would be about $17\frac{1}{2}\%$. If a dealer wished to feature a low financing charge, he could raise his cash price to \$424.00, an increase of 6%. A down payment of \$100.00 would leave \$324.00 to be financed. The addition of a service charge of \$30.00 would bring the time-sale balance to \$354.00, as in the first case, but now the dealer could advertise finance rates of approximately 9% per annum.

Impracticability of Arriving at Simple Annual Interest Rates for Cyclical Type Accounts and Easy Payment or Budget Accounts with Add-on Privileges

34. It would not be possible to arrive at any accurate determination of the future service charges, to state the maturity of the credit, or to establish the effective rate of the charges either at the time of a purchase or at the beginning of any credit period. Such calculations would have to forecast the purchaser's future buying and payment habits, which at that time would be equally unknown to both the seller and the purchaser. The purchaser can affect the amount of the charges at the effective rate, by the date and the amount of his purchases, the time he chooses to make his payments, or the size of his payments. For example, purchases between billing dates would appear in the next succeeding statement as total purchases and become part of the unpaid balance upon which charges are made. The purchaser can extend his period of credit by buying immediately after a billing date, reduce his service charges by increasing his next payment, and reduce the effective rate of the charges, a) by making his payment late in the month just prior to the date of the billing statement in which his purchases appear in the unpaid balance and/or b) by buying more merchandise bringing him into a bracket where the effective rate of the service charge is lower. Even when a service charge at a flat rate of $1\frac{1}{2}\%$ per month on outstanding balances is in effect, it is by no means true that a customer will pay 18% per annum on his purchases. The effective rate would be within a wide range of percentages. Normally, as has been mentioned, retailers quote credit charges on the basis of either a dollar figure per month, or a percentage figure per month. It is not possible, simply by having regard to the balance outstanding

at any time and the service charges made in respect of it for any month, to use these figures to devise a simple annual interest rate.

35. The plans described above are designed to provide the purchaser with the flexibility and convenience of credit buying. From an operational standpoint, a sales clerk cannot work out service charges on individual purchases, so the plans relate service charges to unpaid periodic balances. It cannot be assumed that payments will be made in conformance with prescribed schedule, nor can it be known how the purchaser will choose to operate his account.

36. Certain formulae and other devices have been suggested for use in converting credit service charges into simple annual interest rates. None of these devices can provide accurate results when applied to cyclical type accounts. The Council has had experience in explaining the practical difficulties which would be encountered in attempting to apply simple interest rate disclosure provisions to cyclical and budget accounts to various committees of provincial legislatures and other interested parties. The Council has found that problems can best be illustrated by some practical demonstrations of how various unpredictables prevent any advance determination of the interest rate equivalents which customers will pay. There will be filed with the Committee exhibits which demonstrate the problem.

Rate Disclosure Legislation in Manitoba, Alberta and in Other Countries

37. In 1962 the Manitoba Legislature passed legislation, The Time Sale Agreement Act, certain of the provisions of which required the disclosure of effective rates on continuous deferred payment accounts and the amount of finance charges and interest rates on time sale agreements.

38. The Credit and Loan Agreement Act of Alberta, passed in 1954, required that charges on loans and time sales should be shown either as a dollar figure or as a simple interest rate. An amending Bill was introduced in 1963 requiring the cost to be shown as a dollar amount. After representations from retailers were made, the Bill was amended so that "continuous deferred payment plans" were excepted from the interest disclosure provisions. The Act in its amended form was passed but has not been proclaimed. It is understood that as yet no satisfactory common basis has been devised for converting all finance charges to interest rates.

39. The question of rate disclosure now being considered so thoroughly in Canada has also received attention in other countries, particularly United States and Great Britain. In the United States, the Bill sponsored by Senator Douglas which required the disclosure of simple interest rates by all types of lender in the consumer loan field, has never emerged from the Committee stage. It is understood that the legislators in the United States have so far found insuperable the difficulties of attempting to apply the legislation to the cyclical and 'add-on' types of accounts used by retailers. Credit legislation has also been introduced by thirty-one of the states after, in many cases, exhaustive public hearings on the subject. In none of these states has any effective means been devised for applying interest rate disclosure measures to cyclical accounts. In New York State, for instance, the legislation makes specific provision regarding the manner in which the cost of the loan and all its other terms are to be shown to the borrower, but it only requires the loan's costs to be shown in dollar figures. The New York legislation does set maximum limits for credit charges and in respect of continuous deferred accounts these maximum rates are expressed as a percentage on outstanding monthly balances. As has been explained before, mere multiplication of such monthly rates by twelve does not produce a simple annual interest rate. It is believed that some confusion has existed as to the real import of the New York legislation.

40. Credit disclosure also received consideration by a Special Committee appointed by the government in Great Britain. The section of the Committee's report which deals with this subject reads as follows:

"Another suggestion springing from the consumers' supposed ignorance of the amount of the additional charge levied for credit was that the difference between the hire-purchase and a cash price should be declared to the purchaser as a percentage rate of annual interest on the average sum outstanding over the repayment period. The suggestion is framed in this way to counter the practice of stating the interest rate voluntarily, but misleadingly, as a percentage on the total hire-purchase price or on the whole of the initial advance and/or as a monthly rate. This would help only those hirers who study their agreements, and we credit persons who take the trouble to do this with the capacity to observe and appreciate the difference between the hire-purchase charges since there are some dealers who inflate the stated cash price so as to make the hire-purchase terms offered by them appear to be attractive. We condemn this practice but we do not know how to stop it any more than we know how to stop verbal misrepresentation of the interest rate. To regard the hire-purchase charges as merely an interest rate on a loan is in any event fallacious as they must also cover the costs of setting up the agreement, of collecting and recording payments, and of bad debts." (Final Report of the Committee on Consumer Protection—July, 1962).

It should perhaps be mentioned that in connection with this Committee's report, in the United Kingdom, cyclical accounts are not prevalent and the Committee was dealing primarily with the single transaction type of loan.

Regulation of Retail Credit

41. The Council members are well aware that the health of the retail industry depends in large part on the proper use of credit by the public, and that all merchants must avoid any abuse of public trust. The Committee is obviously as well aware as the members of the Council of the incalculable injury which could be caused to the retail industry and to the economy, if any provincial legislation conceived for the protection of borrowers, forced retailers to abandon their practices which have proved advantageous both to public and merchant.

42. To require the translation of service charges into so-called simple annual interest equivalents would have these immediate effects:

- (a) Put an end to cycle credit and other flexible plans, thus reducing the total volume of retail business with the serious secondary affect on the whole economy;
- (b) Drive the cost of credit underground, so that much credit administration and other costs would be hidden in the price.

43. It is the Council's belief that if any action taken in this connection had the effect of substantially curtailing the total volume of credit granted, the economy would suffer immediate and severe repercussions in the short term, and in the longer term would experience slower growth. Retailers were provided vivid proof of the direct relationship between the free availability of credit and the health of the economy at the time of the Korean War. At that time, severe restrictions on the grant of medium-term consumer credit were deliberately applied for reasons of national economic policy. This action produced a dramatic fall in the level of retail sales which in turn caused a sharp drop in the level of activity in the consumer goods manufacturing industry. The adverse effects were eventually felt in every sector of the economy.

44. In appearing before a hearing of the Ontario Select Committee on Consumer Credit recently, the Council suggested that if further legislation on the subject was considered necessary and desirable, such legislation should have proper regard for the nature of presently developed business practices and should contain the following principles:

In respect to cyclical accounts:

- (a) That the contract between buyer and seller shall state in at least ten point type:
 - (i) The name and address of the vendor;
 - (ii) A Notice to the Buyer:
 - "Do not sign this agreement before you read it, or if it contains any blank spaces.
 - "You are entitled to a completely filled-in copy of this agreement.
 - "You are entitled to pay off in advance the balance due at any time without notice or bonus."
 - (iii) The amount of credit service charges applicable to outstanding balances.
- (b) The seller shall supply to the purchaser on the billing date succeeding the purchase at the address given by him the following information:
 - (i) The cash sale price of the goods or services purchased;
 - (ii) The amount of any payment made in money or in goods;
 - (iii) The total credit service charge including fees, if charged, applying to the outstanding monthly balance.
 - (iv) The time balance and the schedule of repayment.

Similar requirements adapted for the kind of contract being used should be provided for other forms of retail credit.

All contracts should provide that payment may be made before maturity with rebate of service charges where applicable.

45. All contracts should forbid:

- (a) Any lien, or chattel mortgage on any goods except those being purchased under the contract;
- (b) Any assignment of wages whether effective before or after default except by employees of the vendor;
- (c) Any repossession of the goods after two-thirds of the total purchase price has been paid if the value of the goods originally purchased is less than \$500.00.

It was recommended that these requirements should not apply to transactions of a commercial nature between firms or individuals in business for business purchases. The Council proposes to make suggestions of a similar nature to other provinces which contemplate enacting legislation dealing with consumer credit.

46. The Council will be happy to make available to the Committee or its consultants any of its representatives whom the Committee feels can help it in its researches.

All of which is respectfully submitted on behalf of RETAIL COUNCIL OF CANADA by

A. J. McKichen

.....
General Manager.

APPENDIX "T"

EATON'S OF CANADA

Customers' Accounts Office

BUDGET-CHARGE ACCOUNT

General Information

We hope that this information regarding Eaton's Budget-Charge Account Plan will show you how pleasant it is to shop this simple new way.

Monthly Payment Chart

Bracket	Minimum Monthly Payment
Bal. up to 35.00	5.00
35.01 to 85.00	6.00
85.01 to 105.00	7.00
105.01 to 125.00	8.00
125.01 to 145.00	9.00
145.01 to 165.00	10.00
165.01 to 205.00	11.00
205.01 to 225.00	12.00
225.01 to 245.00	13.00
245.01 to 265.00	14.00
265.01 to 285.00	15.00
285.01 to 305.00	16.00
305.01 to 325.00	17.00
325.01 to 345.00	18.00
345.01 to 375.00	19.00
375.01 to 400.00	20.00
Over 400.00	5%

The balance shown on your first statement is used to determine the minimum monthly payment, which is due upon receipt of the statement.

Examples:

Balance \$ 40.00, minimum payment \$ 6.00
 Balance \$120.00, minimum payment \$ 8.00
 Balance \$205.00, minimum payment \$11.00
 Balance \$500.00, minimum payment \$25.00

Your minimum payment remains the same each month unless additional purchases raise the balance to a higher bracket. When this occurs, your monthly payment will increase accordingly.

You can save on Service Charges if you pay more than your required monthly payment.

Special terms up to 36 months may be arranged for purchases over \$400.00.

Payments

You may make payments at the following offices in Toronto: Main Store, Customers' Accounts Office, 6th Floor; College-Street, Accounts and Cash Office, 3rd Floor; Annex Budget Store, Cash Office, 2nd Floor; also Eaton's Warehouse Budget Store, Don Mills, Shoppers' World, Oshawa.

When mailing your payment, please attach it to the upper portion of your monthly statement, and address it to the Customers' Accounts Office. You may hand your payment to our driver, who will give you a receipt, or you may make payments at any of our Main or Branch Stores in Canada.

Statement of Account

A monthly statement will be mailed showing the balance outstanding and listing all purchases, payments, goods returned, etc. Enclosed with the statement will be all your sales checks, return vouchers and payment slips.

The Service Charge will be debited to your account each month and is computed on the previous month's balance. The Schedule of Rates is printed on the back of every monthly statement, and is shown on back of this folder.

You can save on Service Charges if you pay more than your required monthly payment.

Ordering Merchandise

When ordering, remitting or writing about your account, please quote your Budget-Charge Account number.

When ordering in person: Please show the sales clerk your Budget-Charge Account Identification Card . . . it helps her to give you faster service.

When ordering by telephone: Just ask the clerk to charge it to your Budget-Charge Account, giving your account number.

Your signature is required when goods are taken, or when you order goods to be sent to an address other than your own.

It is not permissible to order Provisions on a Budget-Charge Account.

Change of Address

Should be promptly reported, whether the change is permanent or temporary.

Merchandise Returned

When merchandise is returned in person: Simply ask the clerk to credit it to your Budget-Charge Account, giving her your account number. She will give you a receipt for the appropriate amount.

If merchandise is to be called for by our driver: Please give instructions, when telephoning, to credit your Budget-Charge Account, giving your account number.

If you return goods less than four days before billing date: They may not be credited on the current month's statement. However, they will be credited on the following month's statement.

Adjustments

If there is any inquiry or adjustment about any item on your account, please notify the Customers' Accounts Office promptly, returning the voucher in question.

Monthly Service Charge Chart

Amounts		Service Charge
Bal. up to	5.00	.10
5.01 to	15.00	.15
15.01 to	25.00	.30
25.01 to	35.00	.45
35.01 to	45.00	.60
45.01 to	55.00	.75
55.01 to	65.00	.90
65.01 to	75.00	1.05
75.01 to	85.00	1.20
85.01 to	95.00	1.35
95.01 to	105.00	1.50
105.01 to	115.00	1.65
115.01 to	125.00	1.75
125.01 to	135.00	1.90
135.01 to	145.00	2.00
145.01 to	155.00	2.15
155.01 to	165.00	2.25
165.01 to	175.00	2.40
175.01 to	185.00	2.50
185.01 to	195.00	2.65
195.01 to	205.00	2.75
205.01 to	215.00	2.85
215.01 to	225.00	2.95
225.01 to	235.00	3.05
235.01 to	245.00	3.15
245.01 to	255.00	3.25
255.01 to	265.00	3.35
265.01 to	275.00	3.45
275.01 to	285.00	3.55
285.01 to	295.00	3.60
295.01 to	305.00	3.70

JOINT COMMITTEE

Monthly Service Charge Chart

Amounts	Service Charge
305.01 to 315.00	3.75
315.01 to 325.00	3.85
325.01 to 335.00	3.90
335.01 to 345.00	4.00
345.01 to 355.00	4.05
355.01 to 365.00	4.15
365.01 to 375.00	4.20
375.01 to 385.00	4.30
385.01 to 395.00	4.35
395.01 to 405.00	4.50
405.01 to 415.00	4.65
415.01 to 425.00	4.80
425.01 to 435.00	4.95
435.01 to 445.00	5.10
445.01 to 455.00	5.25
455.01 to 465.00	5.40
465.01 to 475.00	5.55
475.01 to 485.00	5.70
485.01 to 495.00	5.85
495.01 to 500.00	6.00
500.01 to 1500.00	1.2%
Over 1500.00	1.0%

APPENDIX "J"

H.O. 226
MANUAL NO. 14

H.O. Form No. 226

SERVICE CHARGES

PERMANENT BUDGET ACCOUNTS

Hudson's Bay Company

	1.5%	1.4%	1.3%	1.2%		
	Up to 100.00	101.00— 200.00	201.00— 250.00	251.00— 300.00	301.00— 400.00	401.00— 500.00
1	.02	.01	.01	.01		
2	.03	.03	.03	.02		
3	.05	.04	.04	.04		
4	.06	.06	.05	.05		
1	—	1.41	2.61	—	—	—
2	—	1.43	2.63	—	—	—
3	—	1.44	2.64	—	—	—
4	—	1.46	2.65	—	—	—
5	.08	1.47	2.67	—	3.66	4.86
10	.15	1.54	2.73	—	3.72	4.92
15	.23	1.61	2.80	—	3.78	4.98
20	.30	1.68	2.86	—	3.84	5.04
25	.38	1.75	2.93	—	3.90	5.10
30	.45	1.82	2.99	—	3.96	5.16
35	.53	1.89	3.06	—	4.02	5.22
40	.60	1.96	3.12	—	4.08	5.28
45	.68	2.03	3.19	—	4.14	5.34
50	.75	2.10	3.25	3.00	4.20	5.40
55	.83	2.17	—	3.06	4.26	5.46
60	.90	2.24	—	3.12	4.32	5.52
65	.98	2.31	—	3.18	4.38	5.58
70	1.05	2.38	—	3.24	4.44	5.64
75	1.13	2.45	—	3.30	4.50	5.70
80	1.20	2.52	—	3.36	4.56	5.76
85	1.28	2.59	—	3.42	4.62	5.82
90	1.35	2.66	—	3.48	4.68	5.88
95	1.43	2.73	—	3.54	4.74	5.94
100	1.50	2.80	—	3.60	4.80	6.00

P.B.A.
MONTHLY
PAYMENTS

When the
Balance of
the Monthly
Statement is—

The
Monthly
Payment
will be—

Up to	30.00	\$ 4.00
\$ 30.01 to	36.00	5.00
36.01 to	42.00	6.00
42.01 to	48.00	7.00
48.01 to	54.00	8.00
54.01 to	60.00	9.00
60.01 to	75.00	10.00
75.01 to	90.00	12.50
90.01 to	105.00	15.00
105.01 to	120.00	17.50
120.01 to	135.00	20.00
135.01 to	150.00	22.00
150.01 to	180.00	25.00
180.01 to	210.00	30.00
210.01 to	240.00	35.00
240.01 to	270.00	40.00
270.01 to	300.00	45.00
300.01 to	330.00	50.00
330.01 to	390.00	55.00
390.01 to	450.00	65.00
450.01 to	510.00	75.00

.64.

Balances \$500-\$1,500
Over \$1,5001.2%
1.0%

APPENDIX "K"

COMPARATIVE CHARGES MADE BY TWO DIFFERENT COMPANIES FOR
A \$500.00 PURCHASE PAID \$25.00 A MONTH

Company "A" uses a chart showing the monthly charge on the balance due each month
Company "B" charges 1% on the balance due each month

	A	B		A	B
Purchase.....	\$ 500.00	\$ 500.00	Payment.....	\$ 280.05	\$ 271.32
1st month-charge.....	6.00	5.00		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 506.00	\$ 505.00	13th month-charge...	\$ 255.05	\$ 246.32
	25.00	25.00		3.35	2.46
	<hr/>	<hr/>		<hr/>	<hr/>
2nd month-charge.....	\$ 481.00	\$ 480.00	Payment.....	\$ 258.40	\$ 248.78
	5.70	4.80		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 486.70	\$ 484.80	14th month-charge...	\$ 233.40	\$ 223.78
	25.00	25.00		3.05	2.24
	<hr/>	<hr/>		<hr/>	<hr/>
3rd month-charge.....	\$ 461.70	\$ 459.80	Payment.....	\$ 236.45	\$ 226.02
	5.40	4.60		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 467.10	\$ 464.40	15th month-charge...	\$ 211.45	\$ 201.02
	25.00	25.00		2.85	2.01
	<hr/>	<hr/>		<hr/>	<hr/>
4th month-charge.....	\$ 442.10	\$ 439.40	Payment.....	\$ 214.30	\$ 203.03
	5.10	4.39		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 447.20	\$ 443.79	16th month-charge...	\$ 189.30	\$ 178.03
	25.00	25.00		2.65	1.78
	<hr/>	<hr/>		<hr/>	<hr/>
5th month-charge.....	\$ 422.20	\$ 418.79	Payment.....	\$ 191.95	\$ 179.81
	4.80	4.19		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 427.00	\$ 422.98	17th month-charge...	\$ 166.95	\$ 154.81
	25.00	25.00		2.40	1.54
	<hr/>	<hr/>		<hr/>	<hr/>
6th month-charge.....	\$ 402.00	\$ 397.98	Payment.....	\$ 169.35	\$ 156.35
	4.50	3.97		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 406.50	\$ 401.95	18th month-charge...	\$ 144.35	\$ 131.35
	25.00	25.00		2.15	1.31
	<hr/>	<hr/>		<hr/>	<hr/>
7th month-charge.....	\$ 381.50	\$ 376.95	Payment.....	\$ 146.50	\$ 132.66
	4.30	3.76		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 385.80	\$ 380.71	19th month-charge...	\$ 121.50	\$ 107.66
	25.00	25.00		1.75	1.08
	<hr/>	<hr/>		<hr/>	<hr/>
8th month-charge.....	\$ 360.80	\$ 355.71	Payment.....	\$ 123.25	\$ 108.74
	4.15	3.55		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 364.95	\$ 359.26	20th month-charge...	\$ 98.25	\$ 83.74
	25.00	25.00		1.50	.84
	<hr/>	<hr/>		<hr/>	<hr/>
9th month-charge.....	\$ 339.95	\$ 334.26	Payment.....	\$ 99.75	\$ 84.58
	4.00	3.34		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 343.95	\$ 337.60	21st month-charge...	\$ 74.75	\$ 59.58
	25.00	25.00		1.20	.60
	<hr/>	<hr/>		<hr/>	<hr/>
10th month-charge.....	\$ 318.95	\$ 312.60	Payment.....	\$ 75.95	\$ 60.18
	3.85	3.12		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 322.10	\$ 315.72	22nd month-charge...	\$ 50.95	\$ 35.18
	25.00	25.00		.75	.35
	<hr/>	<hr/>		<hr/>	<hr/>
11th month-charge.....	\$ 297.80	\$ 290.72	Payment.....	\$ 51.70	\$ 35.53
	3.70	2.91		25.00	25.00
	<hr/>	<hr/>		<hr/>	<hr/>
Payment.....	\$ 301.50	\$ 293.63	23rd month-charge...	\$ 26.70	\$ 10.53
	25.00	25.00		.45	.11
	<hr/>	<hr/>		<hr/>	<hr/>
12th month-charge.....	\$ 276.50	\$ 268.63	BALANCE.....	\$ 27.15	\$ 10.64
	3.55	2.69		<hr/>	<hr/>
	<hr/>	<hr/>		<hr/>	<hr/>
	\$ 280.05	\$ 271.32	TOTAL PAID.....	\$ 577.15	\$ 560.64

APPENDIX "L"

The Special Joint Committee of the
Senate and House of Commons on
Consumer Credit

A SUPPLEMENTARY BRIEF ON THE
CONSTITUTIONAL ASPECTS OF CONSUMER CREDIT REGULATION.

Submitted by

JACOB S. ZIEGEL,

Associate Professor of Law, University of Saskatchewan.

Constitutional jurisdiction in the area of Consumer Credit is divided between the provinces and the federal government. The provincial powers are derived primarily from the provinces' jurisdiction over property and civil rights conferred on them by section 92(13) of the B.N.A. Act. I have already described in my principal Brief how the various provinces have exercised this jurisdiction, and I need not enlarge upon it any further.

The federal government derives its principal jurisdiction in this area by virtue of five specifically enumerated powers in Section 91 of the B.N.A. Act. These are, *first*, the power to legislate with respect to banks and banking under Section 91(15); *secondly*, the power to legislate with respect to Bills of Exchange and Promissory Notes by virtue of Section 91(18); *thirdly*, the power to legislate with respect to interest by virtue of Section 91(19); *fourthly*, the power to legislate with respect to bankruptcy and insolvency by virtue of Section 91(21); and, *finally*, the power to legislate in matters of Criminal Law by virtue of Section 91(27).

In the rest of this Brief, I should like to discuss briefly how these powers could be exercised for the purpose of regulating certain aspects of consumer credit or the activities of certain types of financial institutions, as the case may be, and some of the legal difficulties that may arise in applying the enumerated powers to specific types of consumer credit legislation. I shall deal in turn with each of the enumerated powers.

1. *The Power to Legislate with Respect to Banks and Banking.*

The cases indicate that the power which is vested in the federal government under Section 91(15) is a comprehensive one, so that there would appear to be little constitutional difficulty in this power being used for the purpose of regulating all aspects of consumer loans made by the chartered banks. Some legislation of this type already exists in the Bank Act, but the existing provisions seem to me to fall substantially short of what is desirable. In particular, I would recommend the following additions to or changes in the Act:

- (a) Section 91 of the Bank Act should be amended so as to make it clear that, whatever percentage the banks are allowed to charge for consumer loans, it shall be an all inclusive cost, and that no other charges are permitted. As the Committee is aware, it is the present practice for some banks to levy charges in the case of consumer loans over and above the six per cent permitted by the Bank Act. The legal validity of these charges (however justifiable they may be from the commercial point of view) is doubtful, and it is most desirable that this doubt should be resolved one way or the other. In the Small Loans Act the rate which the small loans

companies are permitted to charge is an all inclusive one, so that there is a strong precedent for applying a similar yardstick to consumer loans made by the banks.

- (b) As a necessary corollary to my first recommendation, the permissible level of interest rates, for consumer loans at any rate, should be raised from the present six per cent to a more realistic rate, so as to enable the banks to obtain a reasonable rate of return without having to resort to such devious means as are presently being employed to accomplish the same end.
- (c) It should be mandatory for the banks to disclose to the consumer-borrower the cost of the loan, stated both at a dollar charge and in terms of an effective interest rate per annum. To the best of my knowledge, neither form of disclosure is common practice among the banks at the present time, though I appreciate that there may be cogent reasons against a mandatory disclosure of the effective percentage rate so long as Section 91 is not amended. I am assuming, however, that Section 91 will be amended. Moreover, I think such disclosure provisions should be made applicable to bank loans regardless of whether they are also made applicable, or can be made applicable, to other credit outlets. I draw this distinction because the banks are our most important credit institutions and because their standard of conduct may also be expected to influence the practices of the other sectors of the consumer credit industry.
- (d) The advertising practices of the banks should be regulated to the extent of requiring their advertisements to disclose information similar to that now required in the United Kingdom from hire-purchase companies under the Advertisements (Hire-Purchase) Act, 1957. That is to say, banks which purport to advertise details of their loan schemes should be required to disclose the actual cost of the loan, stated in the same way as they would be required to do so in the agreement itself. The banks do not appear to follow this practice in their existing advertisements.
- (e) The Bank Act should be amended so as to give the consumer-borrower the right of prepaying any part of the loan at any time with a corresponding equitable rebate in the cost of the loan. In practice banks already confer this right voluntarily and the purpose of the amendment, therefore, would be to confirm the right and to give it a statutory foundation. It is already conferred on a borrower under Section 6(3) of the Small Loans Act.
- (f) The consequences of a breach by a bank of the provisions of Section 91 should be clarified. Section 91 provides that a bank is not entitled to charge or recover a rate in excess of the amount permitted by the section. The section does not, however, state what is the position where the borrower has actually paid over an amount in excess of the permissible rate. It was held by the Privy Council in *McHugh v. Union Bank of Canada* (1913) A.C. 299 that this amount is irrecoverable by the borrower. Section 9 of the Interest Act, on the other hand, provides that where the provisions of Sections 6, 7, and 8 of that Act have not been completed with the borrower may recover any interest paid by him. It would be consistent, therefore, to apply a similar formula to infractions of the provisions of section 91 of the Bank Act.

2. *Bills of Exchange and Promissory Notes. Section 91(18).*

As I have explained in my principal Brief, consumers are frequently imposed upon by being required to sign promissory notes which are then negotiated to a finance company or other third party with a view to conferring on them the status of a holder in due course. There is much to be said for the view that promissory notes should not be permitted at all in consumer credit transactions, but without going to that extreme there is an urgent need to prevent the consumer from being deprived of the right to raise defences against a person who seeks to sue him on a note.

This problem is not a new one in Canada; it already arose in the last century. It was then found that businessmen were being persuaded to sign promissory notes in exchange for alleged patent rights, which their vendors did not own. The purchasers were, however, unable to resist claims for payment of the promissory notes because these had usually been negotiated before the fraud was discovered. To cope with this evil. Parliament adopted what are now Sections 14 to 16 of the Bills of Exchange Act.

I recommend that similar provisions be adopted with respect to promissory notes given in respect of consumer credit transactions.

Accordingly, the new provisions should provide (a) that such promissory notes shall state on the face of them that they are given in respect of a consumer credit transaction; and (b) that any holder of a note which carries such a notation shall take it subject to the same equities and rights of set-off as the consumer would have had against the promisee of the note. The new provisions would further have to establish penalties for infringement of the disclosure requirement.

3. *The "Interest" Power. Section 91(19).*

From what I have said in my principal Brief, it will be clear that I warmly support the principle of a disclosure law, which would require the finance charge component in every consumer credit transaction to be stated both in terms of dollars and cents and in terms of a percentage rate on the declining balance of the principal. I also warmly support the recommendation of the Royal Commission on Banking and Finance that the limits of the Small Loans Act be raised from \$1,500.00 to \$5,000.00 and that the existing rate structure within the Act be reviewed in order to determine whether or not the rate of return permissible on loans over \$1,000.00 is adequate.

I also recommend that maximum rates be set for all other consumer credit transactions involving a sum not exceeding \$5,000.00. My reason for this suggestion is twofold. First, it is illogical to regulate interest costs in the case of direct loans but not in the case of other consumer credit transactions which indirectly also involve loans to the extent of the value of the goods purchased or the benefits received. It is only a matter of convenience whether a consumer borrows the money directly from a chartered bank, credit union or other financial agency for the purpose of paying cash for his purchase, or whether he finances his purchase through the dealer by means of a conditional sales agreement or some similar device. My second reason is that a disclosure law would not benefit all consumers equally. Consumers vary enormously in background, education and financial sophistication. Investigations in the United States have shown that a section of the consumer public are not "comparison shoppers". They are generally drawn from the lowest income brackets. It is from such persons that the highest interest rates are frequently exacted and who, therefore, need continuing protection, regardless of whether a disclosure law is adopted or not.

The question which now arises is to what extent any or all of the foregoing legislative proposals are within the federal power. Two major problems require

consideration. The first arises out of the decision of the Supreme Court of Canada in the *Barfried* case, and the second involves the so called "time price" doctrine.

I have had an opportunity to read Mr. McGregor's testimony before this Committee on the *Barfried* case, and I agree with his admirable analysis of the decision, save in one important respect. Mr. McGregor appears to suggest that the decision paralyses the federal power to legislate in matters of interest, in so far as the court held that "interest" does not include a bonus or similar charges. I do not think that this conclusion follows. It is a well settled constitutional doctrine that Parliament has jurisdiction not only over the subject-matters specifically enumerated in Section 91 of the B.N.A. Act but also in respect of such matters as are reasonably or necessarily incidental to the exercise of the specific powers. Assuming therefore that the federal power to legislate in matters of "interest" does not *per se* include the right to regulate bonuses and charges of a similar character, regulations of the latter character can still be justified if they can be shown to be ancillary and necessarily incidental to the effective exercise of the federal power over interest. It was indeed on this basis, if my memory serves me correctly, that Mr. Varcoe, Q.C. in his then capacity of Deputy Minister of Justice, justified many of the provisions in the Small Loans Act when he appeared before the Senate Committee on Banking and Commerce in 1939. Moreover, not only does the federal government possess this incidental power, but it would appear that, in the event of a conflict between federal and provincial legislation, the federal legislation would prevail. See, for example, *Tennant v. Union Bank of Canada* [1894] A.C. 31 and *A. G. Canada v. C.P.R. and C.N.R.* [1958] S.C.R. 285.

If the foregoing argument is sound, then there is no reason to suppose that the decision in *Barfried's* case in any way impugns the validity of the Small Loans Act or future federal legislation of a similar character. It would also seem to follow that a disclosure law would be within the federal power, at any rate where it is confined to disclosure of the cost of a loan or forbearance to sue on a debt, provided the primary aim of such a law was to compel disclosure of the "interest" element in the cost of such loans.

Regulation of the finance charges in instalment sales and service agreements, and the disclosure of such charges, raises an entirely different issue. "Interest" is generally defined as the cost of a loan. It has been held in a long line of American cases, and some early English ones, that instalment sales are not subject to usury acts because these acts only purport to regulate interest rates on a loan or forbearance of a debt and that an instalment sale involves neither. This is the so called "time-price" doctrine. See e.g., *Williston on Contracts*, Revised edition, Vol 6, s. 1684; *Beete v. Bidgoode* (1827) 108 E.R. 792; and Wm. D. Warren, "Regulation of Finance Charges in Retail Installment Sales" (1959) 68 Yale Law Journal 839. The doctrine proceeds on the reasoning that a seller is entitled to exact such a price for his goods as he sees fit, and that he is entitled to charge a higher price in return for allowing the buyer the privilege of paying for the goods over a period of time. From an economic point of view this distinction between "interest" and a "finance charge" would appear to be quite unjustified, and in recent years the time-price doctrine has been much eroded by the American courts. The question nevertheless remains whether "Interest", as used in Section 91(19) of the B.N.A. Act, is confined to the cost (or, *pace* the *Barfried* case, some part of the cost) of a loan or forbearance to sue on a debt in the narrow legal sense of these terms, or whether it is to be interpreted as an economist would understand it. There appears to be no Canadian decision directly in point, and it is arguable that the Anglo-American decisions are not conclusive because they are only concerned with the interpretation of Usury acts. The point is a difficult one and awaits elucidation by the Supreme Court of Canada. Meanwhile, the validity

of any possible federal legislation in this area remains in doubt, at any rate in so far as it is sought to be justified under the "Interest" power. Conversely, if the federal government has no power to regulate finance charges under this head, then the provincial governments do have it. In such an event, legislation such as Quebec's Article 1561*a* et seq. would be valid.

4. *The Federal Bankruptcy Power. s. 91(21).*

Provincial legislation frequently authorizes a county or district court judge to order the payment of a judgment debt by instalments. The legislation does not, however, permit the courts to consolidate the debts of a debtor, whether at his own request or at the request of his creditors, and a recent attempt by Alberta to introduce legislation of this character was ruled unconstitutional in *Reference re Validity of the Orderly Payment of Debts Act, 1959 (Alta.)*, c. 61 (1960) 23 D.L.R. (2d) 449 (S.C.C.).

That judgment re-affirms that the sole power to introduce such legislation rests with the federal government by virtue of its exclusive jurisdiction in the fields of bankruptcy and insolvency. It is most desirable that the power should be exercised, so that consumers who overextend their financial resources can rehabilitate themselves expeditiously and with minimum expense. It may be noted in passing that the American Bankruptcy Act has a special chapter dealing with personal bankruptcies, which is very widely used in practice. In 1962, for example, the number of personal bankruptcies in the United States amounted to 135,125.

5. *The Federal Criminal Law Power. Section 91(27).*

It is well settled that the criminal law power of the federal government is very wide, and is not confined to acts or omissions which were crimes in 1867 or are generally regarded as inherently criminal in character. See *P.A.T.A. v. A.G. Canada* (1931) A.C. 310. The power could therefore be used in two ways. It could be used, on the one hand, to prohibit certain types of undesirable activities in the consumer credit field which cannot readily be prohibited under any of the other enumerated powers vested in the federal government. Examples which suggest themselves are the prohibition of "cut-off" clauses and wage assignments.

On the other hand, the criminal law power could also conceivably be invoked as a second or alternative ground for justifying legislation which may fall within the federal power under one of the other heads of Section 91. The two most important examples which come to mind here are the prohibition of usurious finance charges in instalment sales and service agreements and disclosure laws. Whether such legislation could in fact be upheld under the criminal law power is by no means free of difficulty. These doubts arise because it is well settled that the power cannot be used as an excuse to encroach upon the provincial power over property and civil rights. It seems likely, however, that a law which goes no further than to prohibit the levying of finance charges above a certain rate can be justified as a genuine prohibition and would not be construed as a disguised form of regulation. The justification of a disclosure law under the criminal law power presents greater difficulties. It is arguable that the real purpose of such legislation is not to outlaw an existing evil, but to provide the consumer with desirable information; in other words, that it is essentially civil or regulatory in character. Against this, however, it may be urged that a disclosure law is designed to curb quasi-deceptive practices and is of the same nature as laws which punish the dissemination of fraudulent prospectuses. One cannot dedicate with any degree of certainty how a court would decide the issue in fact; much would no doubt depend on how the law was actually framed.

SUMMARY

1. There appears to be little doubt that, by virtue of its powers over banks and banking, the federal government has plenary powers to regulate all aspects of consumer credit loans extended by the chartered banks.

2. It seems equally clear that the federal government has the constitutional power—if not indeed the exclusive power—to curb abuses connected with the taking and negotiation of promissory notes. It is submitted that it also has a concurrent power to prohibit the insertion of “cut-off” clauses in consumer credit agreements.

3. It is submitted that the *Barfried* case does not impugn the validity of the federal Small Loans Act and future legislation of a similar character, and that a disclosure law would fall within the “Interest” power of the federal government, at any rate where that law is restricted to the disclosure of the cost of loans.

4. Whether the federal Interest power also extends to the regulation and disclosure of finance charges in instalment sales is a moot point, in view of the “time-price” doctrine. The prohibition of usurious finance charges could, however, probably be justified under the criminal law power, though the justification of a disclosure law under this head would present substantial difficulties.

5. Finally, there is little doubt that the federal government has jurisdiction under its bankruptcy and insolvency powers to adopt legislation to provide relief for consumers who are overburdened with debts.



Second Session—Twenty-sixth Parliament

1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON

CONSUMER CREDIT

No. 11

TUESDAY, DECEMBER 1, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

The Family Bureau of Greater Winnipeg: Mr. S. J. Enns, M.P., Portage-Neepawa. Mr. Daniel Borden Fenny, Bureau Representative.

APPENDICES

M—Brief from The Family Bureau of Greater Winnipeg

N—Brief from Mr. Douglas D. Irwin, C.A., Financial Consultant, Ontario
Select Committee on Consumer Credit

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1964

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard	Lang	Smith (<i>Queens-</i>
Croll	McGrand	<i>Shelburne</i>)
Gershaw	Robertson (<i>Kenora-Rainy</i>	Stambaugh
Hollett	<i>River</i>)	Thorvaldson
Irvine		Vaillancourt—12.

Messrs.

Basford	Greene	Matte
Bell	Grégoire	McCutcheon
Cashin	Hales	Nasserden
Chrétien	Irvine	Otto
Clancy	Jewett (Miss)	Ryan
Côté (<i>Longueuil</i>)	Macdonald	Saltsman
Crossman	Mandziuk	Scott
Drouin	Marcoux	Vincent—24.

(Quorum 7)

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss),

Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltzman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act (Advertising).

Bill C 23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, December 1st, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Gershaw, Hollett, Irvine, Robertson (*Kenora-Rainy River*), and

House of Commons: Messrs. Bell, Macdonald, Mandziuk, Nasserden, Otto and Saltsman—11.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On motion of Mr. Macdonald, it was Resolved to print the briefs submitted by The Family Bureau of Greater Winnipeg and Mr Douglas D. Irwin, C.A., Financial Consultant, Ontario Select Committee on Consumer Credit as appendices M and N to these proceedings.

The following witnesses were heard:

The Family Bureau of Greater Winnipeg: Mr. S. J. Enns, M.P., Portage-Neepawa. Mr. Daniel Borden Fenny, Bureau Representative.

At 11.25 a.m. the Committee adjourned until Tuesday next, December 8th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE
SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, December 1, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Senator DAVID A. CROLL (*Co-Chairman*) in the Chair.

Co-Chairman Senator CROLL: I see a quorum. Today we have two briefs before us, the first submitted by the Family Bureau of Greater Winnipeg, and also a brief which had been submitted by Douglas D. Irwin, chartered accountant.

A motion was adopted that the briefs prepared by the Family Bureau of Greater Winnipeg and Douglas D. Irwin, be printed in the report of the proceedings.

(See appendixes M and N)

Co-Chairman Senator CROLL: May I say first that Mr. Greene, our co-chairman, cannot be with us today. He is out west and could not arrange to get back, although he tried to do so.

Mr. Irwin is at home in Toronto confined to bed with a very heavy cold, and therefore could not appear here today. If you will recall, he was present at the last meeting and spoke to us, and is on record. His brief will be on record, and we shall bring him back later on.

At the next meeting we shall have the Confederation of National Trade Unions from Quebec. On December 8 and 15 we shall have the caisses populaires, and both of those meetings will be held in room 308 of the West Block, where we have simultaneous translation. That is about as far as we have been able to go at the present time, figuring that the house will adjourn. About the 18th. Of course I do not give you any guarantee of that.

Shall we now discuss the brief of the Family Bureau of Greater Winnipeg? Our witnesses are well known to you. Mr. S. J. Enns is the Member of Parliament for Portage-Neepawa, but by profession he is a social worker and for that reason he has a special knowledge and interest.

Mr. Daniel Borden Fenny is well experienced in this work and is now executive director of the Children's Aid Society of Ottawa. With that background, go ahead, Mr. Enns.

Mr. S. J. Enns, M.P., (Portage-Neepawa): Thank you, Mr. Chairman. I want to say first that Mr. Fenny and I are familiar with the agency that prepared the brief. At one time Mr. Fenny actually worked for the agency, and for this reason claims some familiarity. As Senator Croll has said, he is presently engaged in this work in Ottawa.

Both Mr. Fenny and I are really here as members of the social work profession, with an interest in the problems that Greater Winnipeg has presented in the brief. Neither of us had any actual contact with the agency

in the preparation of the brief. So our appearance is only in support of the agency's brief. Perhaps if there is any phrasing which any person might question, we are not putting this forward as our own personal material, but we feel we want urgently to support the basic recommendations that the Family Bureau has seen fit to make.

I think the main emphasis we want to draw to the committee's attention is the fact that any group that has anything to do, or is concerned, with the study of consumer credit should be made aware of its effects on families.

We have read with interest earlier presentations you have dealt with, where you have been dealing with the effects on the individual consumer, but we who have to do with problems of families coming to social agencies have become very much aware of how major a part finances play in the family problems which come to the attention of social agencies.

As the chairman has said, you have the brief, and I would now limit my remarks to reading the recommendations as they begin on page 7.

On page 7, line 20, we see the following recommendations:

1. That the total interest and other charges be stated as a simple annual percentage in both loans and conditional sales contracts.

This is now required in real property mortgages, by section 6 of the Interest Act R.S.C. 1952, chapter 156; and in other cases where the interest is chargeable per day, per week, per month or any term less than yearly, by section 4 of the Interest Act.

But in many cases of lien notes and conditional sale contracts the interest may be stated correctly, i.e. 7 per cent, but the vendor adds other costs of the financing to the contract such as registration fees, carrying charges, collection fees, etc., so that the Interest Act rate means nothing.

If I could refer the committee to the evidence given by Professor Ziegel on November 10, where he speaks of this type of problem, he says, in effect, that interest, by definition, should really include the total cost of obtaining the money by the borrower, and it is not designed, as he puts it, in terms of net return to the lender. He says on page 384:

From the time that economists have studied the subject seriously, which is not that long a time, they have always regarded interest as the cost to the person who gets the money, and not in terms of the net return to the lender.

The concern of this agency is that if there are going to be costs, let us make it all one cost and call it all interest, or what you will; but let it be one cost, so that you can compare it with others.

Do you wish me to read all the recommendations first?

Co-Chairman Senator CROLL: Yes.

Senator IRVINE: May I ask a question? We have just received this brief now. Being a Manitoban I am extremely interested in it. Would it be feasible for Mr. Enns to read the whole brief?

Co-Chairman Senator CROLL: Really, Senator Irvine, you will find that the rest of it will be brought out in the course of questioning.

Senator IRVINE: I think we do such a wonderful job in the Family Bureau of Greater Winnipeg that I was wondering whether, if it were brought before us now, we might have a better understanding.

Co-Chairman Senator CROLL: I have no objection. What does the committee feel?

Mr. MACDONALD: I received it last week and have read it.

Mr. SALTSMAN: I have read it too.

Co-Chairman Senator CROLL: The recommendations will focus on what they have to say, and the questions then will bring it all out. Try it that way first.

Mr. ENNS: We will be quite glad to comply with the senator's request.

Senator IRVINE: It is perfectly all right, thank you.

Mr. ENNS: We suggest:

- (1) That the Interest Act be amended to include in the definition "interest" all the costs of the loan on lien notes, conditional sale contracts and chattel mortgages.
- (2) That not only loans but also conditional sales and lien notes be brought within the Small Loans Act, R.S.C., 1952, chapter 251, which in its definition of "loan" includes all the costs of the loan.

We quote here the recommendation of the Royal Commission on Banking and Finance "that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer.

In addition to indicating the dollar amount of loan or finance charges, the credit granter should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty."

I could make further comments, but I think we will continue with reading the recommendations.

Co-Chairman Senator CROLL: You can add comments, as you like.

Mr. ENNS: This ties in with the fact that many consumers are not rate conscious. I would class myself among the average consumer, and I find great difficulty in being able to compare what it really would cost me to shop at one establishment compared to shopping at another one, with the different ways they have of offering terms of credit.

The second recommendation: That a waiting period be established in respect of conditional sales contracts and lien notes.

It is our experience that persons of little business experience or judgment are frequently persuaded by high pressure sales methods to sign sales contracts or lien notes which they immediately afterwards realize are disadvantageous to them. A period of three to five days in which such a contract could be reconsidered and rescinded, would, we believe, effectively prevent conclusion of many of the contracts for which Unconscionable Transactions Acts have been passed in many provinces, in order to provide redress.

Mr. SALTSMAN: Could I direct a question to the witness?

Co-Chairman Senator CROLL: Please let him finish first. Perhaps you would make a note of your question.

Mr. ENNS: Reference is made to the British Hire-Purchase Act and other references, such as the Farm Implement Act.

The third recommendation: That there be protection from excessive charges on small loans, including conditional sale contracts.

By way of explanation: Present legislation, while recognizing the principle of control of interest rates, does not appear to cover all those cases which require such safeguard. If a person is able to borrow through a chartered bank, he is protected by the 6% ceiling under The Bank Act. But otherwise, as the Interest Act states, any person may charge any rate of interest provided it is stated in a yearly rate. The Small Loans Act does protect a number of cases, i.e. those where the rate of interest does exceed 12% and are under \$1,500, but many of the lien note and conditional sale contracts which are now used to carry exorbitant rates of interest do not come within this act because firstly they are not loans, and secondly they are for more than \$1500.

We believe that the Small Loans Act should be extended:

(1) to apply to all small loans up to \$5000.

—and we refer to the Canadian Association of Consumers' brief, which makes the same recommendation.

(2) to apply not only to small loans but also to conditional sale contracts, lien notes and chattel mortgages.

That a minimum down payment be required in all conditional sales or lien notes.

This would help to restrict the practice of extending credit in situations where actual or potential assets to permit repayment do not exist.

The English Hire-Purchase Act provides for a minimum down payment by the purchaser on these types of contract. This minimum down payment is set by the Chancellor of the Exchequer from time to time.

That steps be taken to investigate the practice of selling conditional sale contracts or lien notes in bulk to collection agencies and finance companies, with a view to establishing some controls in this area of business practice.

It has long been the practice of vendors under conditional sale contracts and lien notes to take from the purchaser as collateral security a promissory note and to immediately sell the contract and the promissory note to a collection agency or finance company. As it is a recognized legal principle that an assignee of a contract or promissory note, who takes the contract for value and without notice of any defect, has good title, it becomes extremely difficult or impossible for a purchaser to obtain any redress against his original vendor when being sued by the assignee, and in any action against him by the assignee he cannot raise any defence which would have been available to him as against the original vendor.

One form of protection might be the stipulation that the assignee of a lien note or conditional sale contract take it subject to the equities between the original purchaser and vendor and that any bill of exchange which is given as collateral to the lien note or conditional sale contract have imprinted on its face "given as collateral for lien note" and that such bill of exchange be also subject to the equities between the original purchaser and vendor.

That the Parliament of Canada should take immediate steps to amend the Federal Bankruptcy Act to provide the enabling legislation under which a scheme of orderly payment of debts could be established by the provinces.

Protection under the Bankruptcy Act has already been extended to many Canadian citizens. Because of the expense entailed however, the very citizens who are in greatest need of this protection are often unable to invoke it. We have given some examples of the serious and distressing social consequences which can follow from this.

We should like to point out also that the Bankruptcy Act is designed to ensure equitable distribution among creditors of whatever money is available from a debtor. In its efforts on behalf of families, The Family Bureau of Greater Winnipeg has encountered creditors who, realizing the hardship involved for a family, have taken a humane attitude towards the collection of debts, and have not pressed collection or have been willing to accept a partial settlement. The present situation discriminates against such creditors; in effect, creditors with fewer humanitarian scruples are likely to obtain a disproportionate share of whatever money a harassed family is able to pay.

We suggest that real urgency be attached to implementation of this recommendation.

We are aware that among the above recommendations are some which lie primarily within the jurisdiction of the provinces. We have included them however because, first, there may in some instances be overlapping jurisdiction, and second, we understand the terms of reference of the Joint Committee

to be broad enough to include an over-all look at the field of credit practices. We assume, therefore that the Committee in its report may comment on some aspects which are not within the direct jurisdiction of the federal Parliament.

We urge, however, the Committee's special attention to those matters which require legislative action from the Parliament of Canada.

This is respectfully submitted by The Family Bureau of Greater Winnipeg.

Co-Chairman Senator CROLL: In speaking to bankruptcy, Mr. Enns, you spoke of examples being given. Can you summarize them?

Mr. ENNS: I wonder if I could ask Mr. Fenny to speak to this. I know that in the brief, examples are given in several instances, but Mr. Fenny, in his work at the agency and from his own broader experience, knows it is very easy to pick examples from the social agency files. There are literally hundreds of them.

Co-Chairman Senator CROLL: Give us a few, if you have them available.

Mr. D. B. Fenny, Executive Director of the Children's Aid Society of Ottawa: Mr. Chairman, honourable senators, members: I think the examples here, in the Family Bureau of Greater Winnipeg brief, are very typical of cases which come to most public and private agencies.

Co-Chairman Senator CROLL: This is page 3?

Mr. FENNY: Yes. I refer to example 1 on page 3:

Family of 2 adults, 7 children with 8th expected	
Take-home pay	\$300 per month
Family allowance	42 per month
	<hr/>
	\$342 per month
Basic minimum budget for living expenses	\$ 241
Total debts	3,659
Monthly payments contracted for	176

If these arrangements were kept, a balance of \$166 per month would be left for living expenses for eight (soon nine) people.

That is not the example which refers to the Bankruptcy Act, but what I would like to illustrate is the fact that the examples within this brief are not unlike those you will find in any agency across Canada that gives service to families and children.

I checked yesterday with my own agency here in Ottawa to see if we also have such problems. I discovered we were dealing yesterday with the situation where there was a man with four children, 12, 9, 5 and 8 months, who moved three times in the last five months because he couldn't pay rent. The children go from one school to another, the family is disrupted. The man's wages are \$55 a week and there is a garnishee order against him. He has debts of over \$5,000 and 72 creditors. He owes this money for food, clothes, furniture, jewellery and some medical expenses. We cannot see, as a social agency, how we can help this man resolve this kind of problem. It involves \$5,000 in debts and 72 creditors.

Co-Chairman Senator CROLL: What exactly are you saying to us? Are you saying that this man has taken too much credit or that he has been given too much credit, or are you saying that the charges were so heavy that they had this effect of eating up any income he had?

Mr. FENNY: I am referring to recommendation No. 6 in so far as it deals with extending the Bankruptcy Act in order that more orderly payments might be made.

Mr. URIE: I wonder if you would refer to the brief at page 6 where it deals with the Orderly Payment of Debts Act which was found to be *ultra vires*, at paragraph 16:

Mr. FENNY (reading):

In 1961, The Orderly Payment of Debts Act was found to be *ultra vires* of the Province of Manitoba as being bankruptcy legislation. A further example (from the files of the City of Winnipeg Public Welfare Department) shows what happened to one family when this occurred.

Example V—A family consisting of father, mother and 6 children.

Husband was a licensed electrician who after several short term jobs had been employed with a railway for 5 years, earning \$340.00 to \$375.00 a month net. Debts to the total of \$3,000.00 were incurred. Some of these were through illness, e.g. a child who required a colostomy, and a wife who had several illnesses; other debts were a result of over-extension in purchasing home furnishings.

Mr. URIE: Would you explain that?

Co-Chairman Senator CROLL: Perhaps Mr. Fenny could continue with his reading, and Mr. Macdonald will explain this later.

Mr. FENNY (reading):

In this instance an order was made through the Orderly Payment of Debts Court and the family had been paying \$60.00 a month regularly through the Court for 2 years. When the Court was dissolved a garnishment order was served on the man, he was discharged, his wife was hospitalized for psychiatric treatment and the family required full public assistance.

Co-Chairman Senator CROLL: Let us stop there for a moment. Mr. Macdonald, what have you to say to this?

Mr. MACDONALD: Some members and senators may recall that in the 25th Parliament there was a bill, S-2, introduced in the Senate which would have provided for what might be regarded as federal enactment of the Manitoba Orderly Payment of Debts Act. It was also introduced in the first session of the present Parliament. However, after the bill was introduced, the Government received representations from the Canadian Institute of Chartered Accountants and the Attorney General of Manitoba asking for some textual changes in the statute. It was not proceeded with at the last session and the speed has been such that there were further representations for redrafting. It has been redrafted, and I believe there is a new bill ready and it is a matter of finding a place for it on the Order Paper.

Mr. OTTO: I wonder if I could ask Mr. Macdonald, since he knows something about this, whether it is contemplated that this statute would cover consumer credit and commercial credit? I understand there is a constant cry to revise the Bankruptcy Act concerning commerce. At the same time you would have to follow the recommendations to loosen up the situation of the debtors as far as consumer credit is concerned. Is it contemplated that this act would cover consumer credit arrangements?

Mr. MACDONALD: It is confined to the obligations incurred by an individual, not in a commercial way but in his own personal sense. There is a definition of the kind of individual they are seeking to protect there.

Mr. FENNY: That was the example. I thought Mr. Macdonald, being from the Justice Department, would bring us up to date.

Mr. SALTSMAN: On page 8, item 27, you say:

...A period of three to five days in which such a contract could be reconsidered and rescinded, would, we believe, effectively prevent conclusion of many of the contracts...

I find myself in agreement with this. I am wondering about the delivery of goods, however. Would they have to be held up for the same period of time? Take, for example, some of these pots and pans salesmen where a contract is signed and the goods are given right on the spot. Would they have to withhold the goods until the delivery period has elapsed?

Mr. ENNS: I would like to make a small comment here. It is true that this is aimed mostly at door-to-door salesmen who appear on an unsuspecting housewife and present a very pleasantly packaged piece of merchandise, which obviously has a great deal of appeal to the individual but which is not within the price or within the purchase capability of this particular consumer. In these cases these articles are usually left with the consumer. What we have done sometimes—and I am speaking now for myself—is that we have advised these customers to return the articles. The vendors say that legally they cannot do this, but in most cases the vendor or the people merchandising these goods accept them, after some threatening letters, and let it go at that. This is the area that this recommendation is aimed at.

Co-Chairman Senator CROLL: But the question I have in mind is if the salesman leaves the goods and the contract is signed, is there 48 or 72 hours in which to change it?

Mr. FENNY: In case the recommendation is adopted.

Mr. SALTSMAN: Yes. If you have this cooling-off period and in the meantime the children have jumped on the pots and pans and destroyed part of the goods, that would pose a problem. You would have to consider the possibility of having the contract signed and not delivering the goods until the period had elapsed. I think it would be a good idea to have that happen and it would avoid a lot of foolish, impulse buying.

Mr. ENNS: It seems to follow that the delivery of the goods should be held up until the time has expired for the validation of the contracts.

Co-Chairman Senator CROLL: Under the Manitoba Farm Machinery Act, is the machinery delivered immediately or is it held for a while?

Mr. MANDZIUK: If it is farm machinery or farm implements it is delivered immediately because the farmer needs it right away.

Co-Chairman Senator CROLL: But there is a waiting period under that act, as you point out. Are you aware of what is done? You are from Manitoba.

Mr. MANDZIUK: I understand that delivery is immediate with farm machinery. I do not think you can damage it too easily so if it has to be reclaimed on the third day its value has not depreciated.

Mr. NASSERDEN: With respect to farm machinery I think the important thing is that the farmer might come to the conclusion that this particular implement will not do the job that it was indicated to him it would do, and that is why that period is in there.

Mr. MANDZIUK: On the other hand, I differ from my friend. Farm machinery is sold under a warranty, and if a farmer uses it for a day or two it cannot be returned as new machinery. It puts the dealer in the unenviable position of having a second hand implement on his hands. It would involve people in legal entanglements and even court actions. I agree that if we are thinking of sets of books or sets of pots and pans, as Mr. Saltsman has mentioned, then that is a different matter, but I do not know how you are going to restrict it. That will be up to the draftsmen of the legislation. All we can do is recommend.

Co-Chairman Senator CROLL: But farm machinery is not sold by a door-to-door salesman.

Mr. MANDZIUK: Yes, it is. The salesman goes out and sees that a man has an old tractor and thereupon tries to sell him a new one.

Co-Chairman Senator CROLL: But he does not have the tractor with him.

Mr. MANDZIUK: I know, but that tractor is sold to the farmer, and it is no longer a new tractor after it has had a day's use. If the waiting period is applied to farm implements then what position does that put the dealer in?

Mr. NASSERDEN: What position does it put the farmer in?

Mr. MANDZIUK: He should have his eyes open as well.

Mr. OTTO: When you were mentioning Manitobans, Mr. Chairman, you forgot to look at me. Mr. Fenny, I shall try to restrict my questions to your business. I wonder if you can tell me how many of these hardships cases you handle in a year?

Mr. FENNY: Mr. Chairman, in answer to that question I would not be aware of the number of cases that the Family Bureau of Greater Winnipeg handles at this time, since I am not associated with that agency at the moment. I can make an observation based on my experience in my present agency, and also my experience in my former agency, and say that most of the cases coming before social agencies concerning family problems are without exception due to financial difficulties. For example, in the Family Service Department of my agency here in Ottawa most of the cases—over 90 per cent of them—come to us because of lack of attention to children and marital breakdowns in the home.

Mr. OTTO: But you realize that there are a great many families that go in over their heads and who, even though there is hardship, avoid coming to you?

Mr. FENNY: Yes.

Mr. OTTO: And perhaps they may be in greater trouble than the ones who do come to you?

Mr. FENNY: There is no question about it.

Mr. OTTO: In other words, the people who come to you represent a small portion of the people who are in great difficulties?

Mr. FENNY: Yes.

Mr. OTTO: From your experience do you think that disclosure of the interest rate—that is, if these people were made perfectly aware of the interest rate—would stop them from buying beyond their means? Do you honestly say from your experience of people who find themselves in difficulty that if the interest rate was disclosed to them they would then become comparative shoppers; that they would stop and not buy things unless they could afford them? Do you think such legislation would have that effect?

Mr. FENNY: I would be misleading the committee if I said that disclosure in itself would restrict people from buying as much as they do. That is not the reason why they buy. Notwithstanding, I think it would be helpful to the consumer to know how much he is paying.

Mr. OTTO: Of the recommendations that you make—

Co-Chairman Senator CROLL: Just a moment, Mr. Otto. Let Mr. Fenny finish his answer.

Mr. FENNY: I would agree with you that only a small proportion of consumers come to the attention of welfare agencies, but notwithstanding I would say that welfare agencies and their clients should be considered by this committee in terms of the problems this matter creates for this very small minor-

ity. If disclosure of the interest rate can be used as a tool in working with these families to illustrate to them what it is they are being involved in then I think it would be of assistance, but it would not necessarily restrict their buying.

Mr. OTTO: You have made six recommendations here.

Mr. FENNY: Yes.

Mr. OTTO: Which one or two recommendations do you consider would be of the utmost help to you in your work if they were adopted? This is what I am trying to find out. You have recommended disclosure of interest rate, a waiting period, protection from excessive charges—that is, in respect of conditional sales contracts—down payments and then, of course, bankruptcy legislation.

Mr. FENNY: This would be my own personal opinion.

Mr. OTTO: Yes, that is what I want.

Mr. FENNY: I think the answer to your question would be that it must be governed by the ability of the person to repay what he has borrowed. I think that we find that credit is very easily granted to people who obviously have not the potential to repay, and it is this aspect that I feel personally should be considered.

Mr. OTTO: Let me understand this correctly. What you are saying is that the most important field in which there must be legislation is that of restricting purchases to the ability to pay?

Mr. ENNS: Restricting credit.

Mr. OTTO: Restricting credit to the ability to pay. From your experience in the past do you think that if the industry were left with this problem—I am referring to the business of granting credit—would it be able to police itself to the extent of granting credit only in cases where there was a reasonable chance of repayment without too much hardship?

Mr. FENNY: I think they do that quite well now, but there are some who do not.

Mr. OTTO: It is those who do not that we want to—

Mr. ENNS: There are two examples in the brief which show that there are one or two who would not go along with this self-policing method of collecting outstanding amounts. If it is already an accepted business practice that these companies police this kind of activity themselves then would it not be desirable to have such a provision in the statute?

Mr. OTTO: That is what I am asking.

Mr. ENNS: I feel that it should be so. Again, Mr. Otto, to answer your general question, our main concern in granting credit, as Mr. Fenny has pointed out, is the granting of credit in cases where there does not seem to be an ability to repay. In earlier briefs you have heard that it has been a more or less common business practice for merchants and businessmen generally not to grant credit to persons who do not have the ability to repay. This is an almost axiomatic statement. Theoretically we can say this, but in practice this does not appear to be so because we have run across cases where credit has been granted to persons who do not have the ability to repay. It is granted by persons who want only to make a sale, and who do not worry too much about the jam the consumer is getting himself into.

Mr. OTTO: Would you recognize first that the purpose of business is to make money? So long as there is a chance of forcibly collecting a debt, then some businessmen will grant credit even though the people who borrow the money cannot repay easily. They are quite content as long as there is a legal avenue of collection.

Mr. ENNS: We feel that this is somewhat unfair, and we are asking legislation that will do away with it. Should your request not be directed at the consumer end, rather than at the collection end? In other words, legislate to limit the collection, without the complete strength of the law that is inherent in collection. In other words, if one wanted to put an example, you say you are surprised that the retailer has sold goods to people whom he is almost sure cannot repay, but as long as he knows he can sell the note to somebody who can use the law to collect, who can phone the employer of the debtor and say "Your employee owes us money" and who can use the threat of garnishee and can use the threat of legal action; then, as long as these are available, surely you are not going to expect that each retailer is going to police himself and not sell goods. Therefore, your emphasis should be on the collection, should it not?

Co-Chairman Senator CROLL: Recommendation No. 5 covers exactly what you say. They say:

That steps be taken to investigate the practice of selling conditional sale contracts or lien notes in bulk to collection agencies and finance companies, with a view to establishing some controls in this area of business practice.

I also have Mr. Bell, Mr. Saltsman and Mr. Mandziuk in line for questions.

Mr. BELL: I want to ask a question on the same lines. How do you reconcile the fact that the loan companies show such a good record of payment of loans? We have figures I think in that respect. You are making the case—and I do not dispute it and I think it is a very good brief—of tremendous hardship in the family. It seems, however, that they are able somehow to work out the payment of loans.

Mr. ENNS: Are there not two kinds of credit—credit of advancing cash, and credit of selling goods on time? I think these are distinguishable kinds of consumer credit.

The CHAIRMAN: Some evidence before the committee is that the incidence of loss on payment, in both these elements, is almost infinitesimal. In automobile financing, and on consumer credit financing, retail credit, the evidence was that the incidence of loss was really not a great deal. That was the startling evidence that Mr. Bell speaks of.

Mr. BELL: I ask this because we have all been involved in welfare work to some extent. It means that you were able, through your agency, to work out a method, even though there is hardship on the family, somehow to organize these cases that are brought to you, so that repayment can take place.

Mr. FENNY: That is the position inevitably, but at the price of deprivation in the family. It means that the social agency goes around scrounging for food and fuel in order that the parent may be able to have cash to repay the loan or the debt. In other words this is done at a cost to the family and the children, of some deprivation of their own necessities of life, in order to keep these payments going.

Mr. OTTO: You are the collection agency—you become the collection agency.

Mr. FENNY: We facilitate the family in resolving one of its problems.

Mr. BELL: That is what I want to get at. In other words, your answer to the loan company, who make a strong case for repayment, in almost every instance will be that this may be true, but in doing so the family life is run completely out of balance and it affects the relationship within the family. Of course, if we restrict it in some way, this availability of credit might reduce the need for agencies and for this type of collection and policing that you are now increasingly involved in.

Mr. FENNY: It would be interesting to know, in the return of the finance companies, in which they state there is such a small loss, how long it takes to collect a particular debt.

Mr. URIE: We have that information too.

Mr. FENNY: I am thinking of a case which came to our agency five years ago where a man got married and incurred a debt of \$750. Now, five years later, the debt is still over \$700. We say the return is still nil, he still owes the finance company \$500. He had a low earning capacity. What are his prospects in the next five years.

Senator HOLLETT: How much money has the finance company collected from that man in the five years?

Mr. FENNY: I am sorry, I have not that information.

Senator Hollett: That is important.

Mr. SALTSMAN: What you have to say on page 4 is quite important. You say:

The widespread existence of situations like these demonstrates that our present system of relying solely on the caution of the creditor does not provide adequate control. Some credit grantors have explained this frankly, by stating that the individual business firm generally finds it more profitable to loan freely, expecting a certain percentage of bad debts, than to include in its operations the costs of thorough credit investigation.

A question has been raised here as to whether the disclosure of interest has really accomplished some of the purposes that your agencies are interested in. I am rather inclined to feel that they would, because one of the effects of disclosing the interest rate would be to make a prudent borrower more prudent. I think he would be very reluctant to operate in the sort of private welfare service that is being operated by some of the finance and loan companies, because in effect the prudent borrower is paying for the cost of collection of bad debts. By that disclosure of interest the prudent borrower may be reluctant to pay that rate, and the rate may have to be lessened. When that happens the finance companies and borrowers will have to police themselves and act more rationally and incur far fewer debts of a bad nature. In other words, they will have to be very careful about those to whom they give credit. I think that right now it does not make any difference, because it is absorbed in the total picture; but under a declaration system I think this would mean they would have to be far more cautious, and the social consequences of such a step would be admirable.

Mr. OTTO: It is good rationalization.

Mr. ENNS: Of course, there would have to be careful screening.

Co-Chairman Senator CROLL: You are into another field now.

Mr. MANDZIUK: There is an example on page 3, the second example, No. 9, which intrigues me. While I have no sympathy with creditors who are out to sell, I am wondering whether the petitioners herein, or those proposing the draft, expect it to excite any sympathy for a case which I presume is very extreme. Take the case of a young man who is foolish enough to employ all these things. My question is: In your social agency which investigates cases of this kind, do you go into giving the young man, regardless of his age, a lecture on how he could purchase in the future? How can you help a man in an extreme case like this?

Mr. ENNS: May I make a rejoinder, and perhaps you would like to follow it through Mr. Fenny. May I emphasize that most people who come to the agency come for counselling and do not come for money to pay off debts. We do not pay debts. It is mostly a counselling service. This young man in the

example will be told that what he has done is ridiculous and told what he could have done, but then he will be told that it is a legitimate debt and that is has to be paid and we will try to work out an orderly system of doing this, so that he will not be completely incapable.

Mr. MANDZIUK: Did you realize, Mr. Enns, that this committee is burdened with the task of making representations broad enough so that whatever falls into federal jurisdiction can be taken up by the federal Government, and whatever falls into provincial jurisdiction can be taken up by the provincial governments. We give the example. How could you legislate against conditions such as this? Take the question which my colleague Mr. Otto asked, that disclosure of interest would not help a man such as this?

Mr. OTTO: We are all foolish to some extent.

Mr. ENNS: We cannot legislate against human weakness. This is accepted. This is an example where credit is granted to an individual who does not have the ability to repay.

Senator HOLLETT: Yet you say that is a reputable firm with branches across Canada, a reputable firm, with retail stores, loan companies, etc.

Mr. ENNS: I think the emphasis here was that it was not because of high pressure salesmanship that this person got into debt, but because this reputable firm did not really ask what other debts he had.

Senator HOLLETT: Then how do you call it a reputable firm?

Senator ROBERTSON: Even lawyers are in that position.

Mr. MANDZIUK: When you are asking for legislation to guard against this, these two examples are there. I do not think there is any legislation there which would do it.

Co-Chairman Senator CROLL: Mr. Mandziuk, the point they make about the orderly payment of debt legislation, in Alberta and Manitoba, and certain other provinces, will, of course, assist this man.

Mr. MANDZIUK: I differ from you, Mr. Chairman; he will not be out of debt as long as he lives.

Co-Chairman Senator CROLL: He may be able to continue a fairly normal home life by making small, uniform payments. With regard to future purchases, of course, you are right.

Mr. BELL: I think what this points out is the fact that the advertising of today which invites a person to pay so much down, or nothing down, and low monthly payments, deceives a lot of people into thinking they can tackle more than they are able to do. Perhaps they have not given enough thought to it. However, this is one of the things that happen. All that this points out to me is that we need legislation that will make them aware and conscious of this fact. It is part of an educational program in that way. The other thing is that there is not the need for this type of advertising to the extent that it is used today.

Mr. MANDZIUK: You cannot control that by legislation.

Mr. BELL: I am not saying that you can control it, but there must be something somewhere when you get into this field that can be done to restrict this type of activity.

Co-Chairman Senator CROLL: We will have to think about that, too.

Mr. BELL: Are there a greater number of cases being referred to you for cancellation each year, and is this becoming drastic?

Mr. FENNY: The debts seems to be becoming greater. It is not so easy for them to add to their current debts. I made the statement, and I repeat it again, that in a family agency, most of the cases coming to its attention already have serious financial problems. I spoke to Mr. Enns earlier about a case which was

brought to my attention yesterday of a deserted wife with five children. She gets a mother's allowance of \$237 a month and also \$34 in family allowances, or a total of \$271 a month. Her rent is \$75 a month. Her debt to a furniture store was approximately \$600. She received a letter in the mail from the department store stating that because she was such a good customer they were extending another \$1,000 credit to her, without any down payment. So she immediately went out and took another \$469.

Mr. MANDZIUK: They are both crazy.

Mr. FENNY: For a total of \$1,069—and she is on mother's allowances.

Mr. MACDONALD: I have a series of rather diverse questions. First, Mr. Fenny gave an example of a situation where a man had 72 creditors in Ottawa. Was any attempt made to use the consolidation order proceedings under the Division Court Act?

Mr. FENNY: Yes, there was some effort. I think it has taken some time because of the large number of creditors involved. I understand that the worker found that 42 of such creditors had been located, but there are about 30 to go yet.

Mr. MACDONALD: Let me put a proposition forward which may shock everybody. In the case of a person under a consolidation order who has to pay up to five years at small amounts a month, would it not be better to advise him to go into personal bankruptcy?

Mr. ENNS: It costs \$500 to do that.

Mr. MACDONALD: What would you think about stipulating legislation to wipe out his debts, except for the cost of administration in bankruptcy?

Co-Chairman Senator CROLL: Mr. Macdonald has a very important point there, and he is talking about legislation that is in existence in other legislative bodies.

Mr. OTTO: I am all for that.

Co-Chairman Senator CROLL: Please let him finish. He has an important point there.

Mr. ENNS: I would certainly support that, and I am sure Mr. Fenny would, just as it is legitimate practice for business corporations to take this step. Perhaps it needs to be considered for individuals as well.

Mr. MACDONALD: Before the Manitoba legislation which had been in operation for 30 years was declared *ultra vires*, what would have been the average number of new cases each year handled by the Winnipeg region?

Co-Chairman Senator CROLL: I was on the committee when it was dealt with in the Senate, and the people from Manitoba said it was one of the most precious statutes they had on their books, and it was invoked very often.

Mr. MACDONALD: Another thing, we have heard a lot of discussion and we are considering legislative changes to provide a minimum standard of disclosure to people who, it is said, won't use it anyway. I put the proposition to you, that some minimum standard of disclosure to provide a comparable basis for people to gauge the cost of credit is an essential pre-requisite to an effective educational program. Unless the facts given to the people are simplified by legislation, no educational system is possible.

Mr. ENNS: I would follow the remarks of some of the committee members made to an earlier brief of the Retail Merchants Association, where they were explaining the different credit rates, and people were admitting confusion. I would say we need more simplified comparative standards such as you are proposing. It is essential for any effective inroads and changes in the granting of Consumer Credit.

Mr. FENNY: It would appear important that the simplest way of indicating to a client what it is he is paying in the way of interest, and for those of us who have to help these people resolve their problems in the future, and to get them to gain some insight as to how they got themselves into this problem, and the only fair way, would be to have available to the client, disclosure provided by law.

Mr. MACDONALD: Let us assume that this information has been simplified by a provision for disclosure. What suggestions would you have, from your experience of educational programs, in a preventive way, to prevent people from getting in deeper, in the first place? What would you suggest to correct this apparent ignorance in our society and some of its consequences? I am not talking in terms of regulating advertising, but in terms of better teaching in the schools, or information through social agencies, and things of that nature.

Mr. FENNY: It is everybody's problem. It is the problem of citizens, organizations, etc., and of the people who grant the credit. I think it is in the public interest for everybody to be aware of what is involved, and that the educational process would not be confined to social agencies or consumer organizations, but would be the responsibility of everybody involved.

Mr. MACDONALD: I think that is all I have, Mr. Chairman.

Senator ROBERTSON (*Kenora-Rainy River*): Mr. Chairman, it seems to me that a great many of these cases of getting deeply involved in credit, and the resulting investigations that are made, are unnecessary. People are people, you know. I have had a great deal of experience in this matter, and I do not think that with all your guidance and assistance many of them will be helped. Being with the credit unions so long, I think the answer to the whole problem is truthfulness between the creditor and the consumer. Many of these people will come around at the back door to make overdue payments which are overdue, and they will go somewhere else and charge at the same time.

I am very interested in trying to learn just what kind of legislation could be suggested to solve this problem. People being what they are, and business concerns being what they are, I do not think there is much of a solution to the problem, because it arises not only for people making \$300 or \$400 a month, but also for people making \$600 or \$700 a month. In fact, this has happened to a lawyer and doctor who are personal friends of mine.

Mr. ENNS: In response to part of what you say, the recommendation where we are asking for at least a minimum down payment, to eliminate this idea of getting things without paying anything, would limit the problem to some extent. It is not the complete solution, of course.

Co-Chairman Senator CROLL: Consider this for a minute. Mr. Fenny gave us an example of a woman on mother's allowance who was in debt to the extent of \$600 and who had a letter from a firm saying, "You have further credit for \$1,000," and she went and bought \$400 more worth of goods.

Now, let us go back to Mr. Macdonald's suggestion. What he is saying, in effect, is that this woman, finding herself in this impossible position, can go into court and declare bankruptcy, and the man who extended that credit loses completely. In such a case aren't they likely to be a little more careful in granting credit and have an out?

Mr. MACDONALD: May I expand that a little? Firstly, if he is running a profitable business he is not losing 100 per cent but only 50 per cent, because he gets the bad debt set off against income tax. Secondly, people will say, if he goes into bankruptcy, it spoils the individual's credit rating. We are dealing with a pathological group, with the individual who has been irresponsible, and what better way to weed him out than by this method?

Mr. BELL: My question was that right now the payments are working themselves out in some way, according to the figures we have. While the work of the agencies is drastically increasing and the family life is thrown out of balance, we are still surviving in a certain way.

Mr. ENNS: Perhaps we should not allow any emphasis to creep in so that we are taken as saying we are against credit. In many cases this is the only method of acquiring much needed household items, but there have been controls on other monetary developments, such as the Bank of Canada controlling the actual issuance of money and controls over the direct field of banking. It seems in this area, in this apparently new monetary development in the field of credit, we have not yet devised or studied or, perhaps, understood sufficiently the need for controls, but we recognize it as being a third step.

Co-Chairman Senator CROLL: The question Mr. Macdonald put to you was: Is it education that we should be concerned with rather than controls? Well, he did not say, "rather than controls", but, rather, could we put emphasis on education at the school level and every conceivable level? Could you conceive that to be effective in any way?

Mr. ENNS: I certainly agree that education is always good, but I am not convinced this would completely eliminate those problem areas.

Co-Chairman Senator CROLL: The Government—some government has a role to play?

Mr. ENNS: Yes.

Co-Chairman Senator CROLL: That is one of the purposes of this committee, of course, to determine that.

Mr. URIE: Do you believe there should be limitation on the charges imposed by legislation?

Mr. ENNS: Do you mean, the interest charges?

Mr. URIE: The costs of extending credit.

Mr. ENNS: I rather think the competitive aspect of merchandising would probably control interest rates. I do not feel there should be too tight a control; but I am concerned that at least we know what the total charge is the consumer is paying, rather than set maximum limits.

Mr. URIE: You do not agree, then, with the contention of the Retail Council, whose brief and evidence you have read, that imposing controls or requiring disclosure in terms of an annual percentage rate would drive the cash up and permit the retailer to hide his charges?

Mr. ENNS: I think the competitive aspect would control this. Professor Ziegel said that in Britain, where there had been new controls, they certainly did not limit retail sales but increased sales where disclosures were in effect.

Mr. URIE: Just one further question arising out of Mr. Bell's question. You have heard of the various types of retail credit plans there are. In your experience and in Mr. Fenny's, what is the area in which the greatest difficulty to the consumer arises, the low income consumer? Is it in this revolving credit type business, where the fellow finds it very easy to purchase merchandise and each month pays a small amount of money, or is it in the purchase of hard goods, household goods of a larger nature under conditional sales contracts? I think it would be useful to determine which area seems to create the greatest difficulty.

Mr. ENNS: My reaction would be it is in the revolving credit accounts. This seems to be aimed at the consumer with a lower income, who is almost

completely dependent on the credit buying method of acquiring household goods He is not rate-conscious and does not really know how much he is paying, but as long as his credit is good he will keep on dealing with the stores. I am not talking now about the clients of social agencies as much as of most of the lower income bracket of consumer.

Mr. URIE: Then you probably feel it would not make any difference in that type of credit extension whether the rate was disclosed as a percentage or dollar value; and he is going to deal with the firm, no matter what happens?

Mr. ENNS: Yes, probably, but it seems unfair.

Mr. URIE: You feel that if the percentage were disclosed and with each monthly payment it became eventually apparent to him what he was paying for his credit, he might react?

Mr. ENNS: I am sure that in the case of a large number of consumers this would begin to have an impact. Perhaps Mr. Fenny could comment further.

Mr. MANDZIUK: I want to come back to Mr. Fenny, to this woman who was offered \$1,000 extra credit. Do you think that if the committee recommended a down payment on every purchase—and I do not imagine the store asks for any down payment on that?

Mr. FENNY: No.

Mr. MANDZIUK: Another question on which I would like the opinion of the two witnesses is, would not the orderly payment of debts, such as Manitoba had, be a good recommendation on the part of the committee, to recommend that the federal Parliament pass an orderly payment of debts provision?

Mr. FENNY: I think that is the recommendation that is in this brief.

Mr. MANDZIUK: In a commercial bankruptcy and a bankruptcy of a man, to take this extreme example that you recall, the assets are taken over by the creditors and they are sold. You cannot take the man's household furniture and turn it over to the receiver and have it sold for whatever they can get. This man can only be assisted by orderly payments legislation, don't you think?

Mr. FENNY: I am thinking of Mr. Macdonald's suggestion, that it might be necessary for some people who are so hopelessly in debt that you cannot even foresee when they could possibly, under any system, repay the amount, and perhaps a personal bankruptcy is necessary in such cases. On the other hand, for many cases where through an orderly payment that debt can be repaid, that would be the answer. So there is probably a need for both, I would suggest.

Mr. MANDZIUK: Thank you, that is all, Mr. Chairman.

Co-Chairman Senator CROLL: Are there any questions from anyone else?

Senator GERSHAW: I am from Alberta and I am buying an automobile. The dealer knows I can pay for it, but he comes along with some papers for me to sign and says, "Doctor, you don't need to sell your bonds. Just sign here." Do you think it is possible for him to tell me how much I will ultimately have to pay, or for him to give me the rate of interest? Do you think that he could figure it out himself?

Mr. ENNS: I suppose he could figure out the individual contract. I think our concern would be: can you compare what you are going to pay under those circumstances as well as if you borrow money from the bank? You are rate conscious. How many other consumers are?

Senator GERSHAW: We have had evidence about it before, but is it possible for him to work out those figures?

Mr. FENNY: I think so, if the regular payments were expressed, I am sure it is possible to work out the figures and he should be able to know his percentage payments per annum.

The CHAIRMAN: There was one brief which had the payments for a particular finance company set out on the back.

Mr. ENNS: The Hudson's Bay and Eaton's, you mean?

Mr. URIE: The Retail Council.

Co-Chairman Senator CROLL: It was set out on the back page. Perhaps I can find it.

Senator GERSHAW: I just wanted to get the opinion of the witness.

Mr. MACDONALD: Page 476.

Mr. URIE: The Retail Council.

Co-Chairman Senator CROLL: No, the one I have in mind must have been more recent.

Mr. URIE: Perhaps you are thinking of the brief Mr. Irwin had filed and which he was to have read today.

Co-Chairman Senator CROLL: Yes, that is it. Mr. Irwin's brief which was placed on file today has the Niagara Finance Company's payments so that the vendor has it in front of him and can tell what the interest rate is on any amount.

Mr. BELL: That gives me a chance to say again that I appreciate we are working towards a better comparison for rates of money, but you are in an entirely different field when you are buying a chesterfield or a frigidaire or a car where you have no alternative choice of the same model in a particular city. Our comparison is not going to be complete so far as the value of some goods is concerned.

Mr. MACDONALD: But may I also point out that when buying a chesterfield you have other alternatives in that you can get the credit from the store, from a finance company or you can get a bank loan.

Mr. BELL: In that regard I recognize the comparison will be complete, but in the case, for example of a chesterfield, how many stores are selling the same particular model of chesterfield so that you can get a true comparison between one store and another? When you go down to a store to purchase a chesterfield and you find out their rates for credit to buy the chesterfield you have to compare the value with that of an entirely different model which might last twice as long.

Co-Chairman Senator CROLL: If a man buys one as compared to another, that depends upon his own particular judgment. He does it on a comparative basis as he sees it. What we are trying to ensure is that the financing should also be on a comparative basis.

Mr. BELL: But when you are dealing with a massive credit account the value of the goods is a hidden factor. The same way in the buying of a new car, if you don't have other agencies to go to in order to buy the particular car, the trade-in value of your old car and the different accessories are factors as well.

Mr. MANDZIUK: I recall the Consumers Association of Canada were not in favour of setting a maximum ceiling rate. All they were concerned with was disclosure, and I think that ties in with what Mr. Macdonald has said. I agree with you, Mr. Chairman, that it is up to the purchaser or the consumer to decide what chesterfield he buys, but if the dealer of this particular chesterfield discloses he is charging him 18 per cent, and he can go to a loan company and get the money for 12 per cent or to a credit union and get it for 8 per cent, then he is shopping for credit. I think that is the solution and the disclosure we are after.

Co-Chairman Senator CROLL: Well, that is the situation we are concerned with.

Mr. ENNS: To make disclosure meaningful, we are suggesting that the total charges for making the money available should be one amount.

Mr. MANDZIUK: Percentagewise.

Co-Chairman Senator CROLL: Are there any further questions?

I want to thank Mr. Enns very much for taking the trouble to give us the benefit of his many years' experience as a social worker.

Mr. Fenny, thank you for making yourself available to the committee as we are very appreciative of the help you have been able to give us. Thank you.

The committee adjourned.

APPENDIX "M"

267 Edmonton Street
Winnipeg 1, Manitoba
December 1, 1964

BRIEF SUBMITTED

to the

JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS
ON CONSUMER CREDIT,

by the Family Bureau of Greater Winnipeg

1. During the past few years, the Family Bureau of Greater Winnipeg, a family service agency operating under the direction of a Board of private citizens and financed through the Community Chest of Greater Winnipeg, has developed a great deal of concern about certain practices in the field of Consumer Credit and debt collection. This concern arises from the fact that problems of debt and debt management play a prominent part among the various social problems about which families in our community approach us for help.

2. We clearly recognize that today retail credit forms a substantial part of total buying power in our economy, and that its drastic curtailment would create major economic dislocation and distress. However, our direct experience with the serious social consequences of some practices in this field has created a conviction that some social accountability and control is badly needed.

3. For many years, our federal government, like governments of other nations, has in the public interest maintained a monopoly in the field of printing and issuing currency. Similarly, controls, less direct in nature, have been developed in the field of banking. With the rapid growth of consumer credit a third purchasing system has developed within the country. Can it seriously be argued that no social accountability should be required and no government controls extended over this system?

4. Recent legislation in Manitoba, "An Act to provide for relief for certain unconscionable transactions" is an attempt to control unethical sales practices by giving power to the courts to set aside or vary loan agreements if it finds that "with regard to the risk and to all circumstances the cost of the loan is excessive and that the transaction is harsh and unconscionable."

5. We welcome this and other similar legislation which may be enacted by the provinces. We believe however that such legislation could and should be supplemented by other legislation to provide protections which will operate at the time transactions are being made—in short, that it makes good sense to prevent hardship whenever possible, rather than to rely exclusively on methods of redress, involving recourse to civil action in the courts.

6. Our agency's experience indicates that it is very common indeed for persons with little business experience and sometimes limited intelligence to fail to understand clearly the terms of a sales contract or loan agreement, and thus to make disadvantageous agreements which they would not have made had they understood the terms. Often these are people who are least able to afford to pay excessive charges, and whose dependent families are skimmed on

the necessities of life in order to pay them. A number of possible ways exist to provide legitimate protection to the purchaser or borrower and some of these are put forward later in this brief.

7. Our agency-experience again indicates however, that the problem is actually much wider even than the area of ethically questionable sales and loan practices. We are concerned at the extent to which credit is being issued in situations where the ability to repay does not exist. This is commonly assumed to be the exclusive concern of the creditor, and that he will exercise caution in order to protect his own interests. We sharply question these assumptions and contend emphatically that the situation is of direct concern also to the debtor, his family, and the community at large.

8. Two examples out of literally hundreds in the files of our own agency will serve to illustrate the type of situation to which we refer:

Example I—Family of 2 adults, 7 children with 8th expected

Take-home pay \$300.00 per month

Family Allowance 42.00 per month

\$342.00 per month

Basic minimum budget for living expenses \$ 241.00

Total debts 3,659.00

Monthly payments contracted for 176.00

If these arrangements were kept, a balance of \$166.00 per month would be left for living expenses for eight (soon nine) people.

9. *Example II*—A young man who, before he was 21, had incurred debts totaling \$5,153.00.

Income at age 21 (had been less when most debts incurred)—
\$277.00 per month.

At 21 this young man was married to a wife less than 18 years old, who at first worked but in a few months had to stop because of pregnancy with serious complications. These debts had been incurred for such items as car, car repairs, furniture, wedding and engagement rings, fur coat, electric guitar, etc.

Present situation—Monthly debt commitments .. \$242.00

Present living expenses 163.00

\$405.00

Against income of 277.00

10. In the above examples the companies involved were reputable firms, retail stores, loan companies, etc. The second example illustrates what we as a social agency of course realize, namely, that some of the responsibility for these situations lies with the purchaser; that immaturity, unrealistic thinking, poor impulse control, etc., frequently contribute to the development of these situations. We recognize that we cannot legislate away these human weaknesses but we suggest that it is possible to put certain protections on credit practices so as not to encourage or exploit them. The point we wish to make is that while some of the serious social situations arising through over-extension of credit are undoubtedly due to unscrupulous sales methods, there are also many situations where the lenders acting individually according to routine business practices and the borrowers, without dishonest intent although without realistic thinking, produce results like the above.

11. The widespread existence of situations like these demonstrates that our present system of relying solely on the caution of the creditor does not provide adequate control. Some credit grantors have explained this frankly, by stating that the individual business firm generally finds it more profitable to loan freely, expecting a certain percentage of bad debts, than to include in its operations the costs of thorough credit investigation. Perhaps therefore we should re-examine the assumption that the creditor is the chief loser if credit is extended where there is no realistic possibility of repayment. Certainly social agencies are vividly aware of the stresses created for individuals and families who have unwisely involved themselves in such situations. The tensions which pile up upon such harassed individuals and families frequently contribute to family breakdown, mental illness, crime, and economic dependency.

12. In Winnipeg as in certain other communities there has recently been recognition by the credit grantors themselves of the serious social situations to which present practice is contributing; there have been some assumptions of voluntary responsibility, one example of this being the establishment of a voluntary credit counselling plan in which debtors are advised by a counsellor, not representative of a firm having an interest in the situation, who then approaches creditors asking that they vary the payment arrangements voluntarily, to make repayment possible on an equitable basis to all creditors. We welcome this and other similar developments within the credit field as we believe that wherever possible "self policing" arrangements are better than those imposed from outside.

13. However, we wish to point out that there are serious limitations to what can be accomplished through this method. Two vivid examples offered by other social agencies in Winnipeg whom we have consulted on this matter will serve to illustrate:

Example III—(from the files of the Children's Aid Society of Winnipeg)

A family consisting of father, mother and 7 children.

Since 1960 the parents have periodically contacted the agency when overwhelmed by financial difficulties, asking for placement of their children. This could not be offered because the children appeared to be as well cared for as seemed reasonably possible within the (stringent) limits of the money available and the attendant anxiety. These however were the facts of their situation.

In April of 1964 the father, though continuously employed, earned only about \$240.00 per month. Of this amount \$115.00 had been garnisheed from his wages, during the month of April, leaving him \$125.00 to support a family of nine. At the same time the family was behind in rent payments and was seriously threatened with eviction. On several occasions the power had been cut off in their home because of non-payment of utilities charges. In February 1964, the couple had appealed to the Credit Grantors Association of Winnipeg to help them consolidate their debts. A plan was worked out and all creditors except one agreed to it. This one creditor was responsible for the garnishment of wages in April mentioned above.

14. *Example IV*—(from the files of the City of Winnipeg Public Welfare Department)

Family consisting of father, mother and 4 children.

Father had been a photographer in one of the armed services. Following discharge he had made a number of unsuccessful attempts

to establish his own commercial photography business. There followed a period of employment on commissions which sometimes became so small that his earnings had to be supplemented through the Public Welfare Department. Mrs. X. sought part-time employment and then full-time employment as a clerk, earning in the latter position \$180.00 a month. Debts totaling \$3,200.00 had been incurred. Approximately \$2,000.00 of these were business debts relating to the husband's unsuccessful business ventures. However, Mr. X. did not have the \$500.00 trustee's fee necessary to declare personal bankruptcy. The other debts, eg. gas company and medical, related to personal necessities. The family was referred to a voluntary credit counselling service. All creditors but two agreed to the plan which was worked out. One of these two creditors approached Mrs. X's employer regarding wage garnishment. At this point the employer, although stating that Mrs. X. did excellent work discharged her. At this point also, Mr. X. purchased a gun with the stated intention of doing away with himself and his family. (The social worker was able to persuade him to return the gun to the store.)

15. For several years in Manitoba, an Orderly Payment of Debts arrangement which was both inexpensive and effective was in operation. The Orderly Payment of Debts Act (R.S.M. 1954 Ch. 193) provided that any debtor who was harassed by creditors could make application to the County Court where he made a statement of his assets and liabilities to the Clerk of the Court and paid a nominal fee. The Clerk notified all the creditors and after reviewing the situation set a sum which the debtor would pay into the Court each week or month. This sum the Clerk distributed to the creditors. During the administration by the Clerk, all actions and garnishing orders were barred so long as the debtor did not default in his payments to the Clerk. The amount of the payments could be varied by the Court if circumstances changed, as through a sharp reduction in income.

16. In 1961, The Orderly Payment of Debts Act was found to be ultra vires of the Province of Manitoba as being bankruptcy legislation. A further example (from the files of the City of Winnipeg Public Welfare Department) shows what happened to one family when this occurred.

Example V—A family consisting of father, mother and 6 children.

Husband was a licensed electrician who after several short term jobs had been employed with a railway for 5 years, earning \$340.00 to \$375.00 a month net. Debts to the total of \$3,000.00 were incurred. Some of these were through illness, eg. a child who required a colostomy, and a wife who had several illnesses; other debts were a result of over-extension in purchasing home furnishings.

In this instance an order was made through the Orderly Payment of Debts Court and the family had been paying \$60.00 a month regularly through the Court for 2 years. When the Court was dissolved a garnishment order was served on the man, he was discharged, his wife was hospitalized for psychiatric treatment and the family required full public assistance.

17. Examples like the above, we believe, demonstrate clearly the need for enactment of the necessary amendments to the Federal Bankruptcy Act to enable re-establishment of an Orderly Payment of Debts plan in this province, and the enactment of similar legislation in other provinces.

18. There are certain other protections which we believe to be socially desirable, eg. establishing reasonable amounts of exemption from garnishment or seizure, such exemptions to be related to the size of the debtor's dependent family and thus to basic living necessities; also certain protections to the purchaser's equity on repossession of goods. However, since this type of legislative provision would appear to be within the jurisdiction of the provinces, we will not discuss it further here.

19. We do however, respectfully urge upon this Joint Committee of the Senate and House of Commons on Consumer Credit, a most thorough and careful consideration of each of the following recommendations:

20. *Recommendations:*

1. *That the total interest and other charges be stated as a simple annual percentage in both loans and conditional sales contracts.*

21. This is now required in real property mortgages (by Section 6 of The Interest Act R. S. C. 1952, Ch. 156) and in other cases where the interest is chargeable per day, per week, per month or any term less than yearly (by Section 4 of The Interest Act).

22. But in many cases of lien notes and conditional sale contracts the interest may be stated correctly, i.e. 7%, but the vendor adds other costs of the financing to the contract such as registration fees, carrying charges, collection fees, etc., so that the Interest Act rate means nothing.

23. We suggest:

(1) That the Interest Act be amended to include in the definition "interest" all the costs of the loan on lien notes, conditional sale contracts and chattel mortgages.

(2) That not only loans but also conditional sales and lien notes be brought within the Small Loans Act, R. S. C. 1952, Ch. 251, which in its definition of "loan" includes all the costs of the loan.

24. We quote here the recommendation of the Royal Commission on Banking and Finance "that it be mandatory to disclose the terms of conditional sales as well as cash loan transactions to the customer.

25. In addition to indicating the dollar amount of loan or finance charges, the credit granter should be required to express them in terms of the effective rate of charge per year in order that customers may compare the terms of different offers without difficulty." (Report of the Royal Commission on Banking and Finance, page 382.)

26. *2. That a waiting period be established in respect of conditional sales contracts and lien notes.*

27. It is our experience that persons of little business experience or judgment are frequently persuaded by high-pressure sales methods to sign sales contracts or lien notes which they immediately afterwards realize are disadvantageous to them. A period of three to five days in which such a contract could be reconsidered and rescinded, would, we believe, effectively prevent conclusion of many of the contracts for which Unconscionable Transactions Acts have been passed in many provinces, in order to provide redress.

28. The English Hire-Purchase Act 1938 provides for such a waiting period. In Manitoba, The Farm Implement Act R. S. M. 1954, Ch. 83, provides similar protection in relation to a specific category of sale contracts.

29. 3. *That there be protection from excessive charges on small loans, including conditional sale contracts.*

30. Present legislation, while recognizing the principle of control of interest rates, does not appear to cover all those cases which require such safeguard. If a person is able to borrow through a chartered bank, he is protected by the 6% ceiling under The Bank Act. But otherwise, as the Interest Act states, any person may charge any rate of interest provided it is stated in a yearly rate. The Small Loans Act does protect a number of cases, i.e. those where the rate of interest does exceed 12% and are under \$1,500, but many of the lien note and conditional sale contracts which are now used to carry exorbitant rates of interest do not come within this act because firstly they are not loans, and secondly they are for more than \$1,500.

31. We believe that the Small Loans Act should be extended:

- (1) to apply to all small loans up to \$5,000 (see Canadian Association of Consumers' brief which we support).
- (2) to apply not only to small loans but also to conditional sale contracts, lien notes and chattel mortgages.

32. 4. *That a minimum down payment be required in all conditional sales or lien notes.*

33. This would help to restrict the practice of extending credit in situations where actual or potential assets to permit repayment do not exist.

34. The English Hire-Purchase Act provides for a minimum down payment by the purchaser on these types of contract. This minimum down payment is set by the Chancellor of the Exchequer from time to time.

35. 5. *That steps be taken to investigate the practice of selling conditional sale contracts or lien notes in bulk to collection agencies and finance companies, with a view to establishing some controls in this area of business practice.*

36. It has long been the practice of vendors under conditional sale contracts and lien notes to take from the purchaser as collateral security a promissory note and to immediately sell the contract and the promissory note to a collection agency or finance company. As it is a recognized legal principle that an assignee of a contract or promissory note, who takes the contract for value and without notice of any defect, has good title, it becomes extremely difficult or impossible for a purchaser to obtain any redress against his original vendor when being sued by the assignee, and in any action against him by the assignee he cannot raise any defence which would have been available to him as against the original vendor.

37. One form of protection might be the stipulation that the assignee of a lien note or conditional sale contract take it subject to the equities between the original purchaser and vendor and that any bill of exchange which is given as collateral to the lien note or conditional sale contract have imprinted on its face "given as collateral for lien note" and that such bill of exchange be also subject to the equities between the original purchaser and vendor.

38. 6. *That the Parliament of Canada should take immediate steps to amend the Federal Bankruptcy Act to provide the enabling legislation under which a scheme of orderly payment of debts could be established by the provinces.*

39. Protection under the Bankruptcy Act has already been extended to many Canadian citizens. Because of the expense entailed however, the very

citizens who are in greatest need of this protection are often unable to invoke it. We have given some examples of the serious and distressing social consequences which can follow from this.

40. We should like to point out also that the Bankruptcy Act is designed to ensure equitable distribution among creditors of whatever money is available from a debtor. In its efforts on behalf of families, The Family Bureau of Greater Winnipeg has encountered creditors who, realizing the hardship involved for a family, have taken a humane attitude towards the collection of debts, and have not pressed collection or have been willing to accept a partial settlement. The present situation discriminates against such creditors; in effect, creditors with fewer humanitarian scruples are likely to obtain a disproportionate share of whatever money a harassed family is able to pay.

41. We suggest that real urgency be attached to implementation of this recommendation.

42. We are aware that among the above recommendations are some which lie primarily within the jurisdiction of the provinces. We have included them however because, first, there may in some instances be overlapping jurisdiction, and second, we understand the terms of reference of the Joint Committee to be broad enough to include an overall look at the field of credit practices. We assume, therefore that the Committee in its report may comment on some aspects which are not within the direct jurisdiction of the federal Parliament.

43. We urge, however, the Committees' special attention to those matters which require legislative action from the Parliament of Canada.

Brief prepared on behalf of The Family Bureau of Greater Winnipeg by the following special committee of the Board of Directors:

Rev. Gordon L. Toombs, Chairman

G. Allan Higenbottam

B. Shapiro

L. Butterworth, President,

Board of Directors

Mrs. Dorothy McArton,

Executive Director

The Family Bureau of Greater Winnipeg

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Winnipeg 1, Manitoba,

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APPENDIX "N"

SPECIAL JOINT COMMITTEE
OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

MEMORANDUM

IN RESPECT TO MATHEMATICAL AND ADMINISTRATIVE
ASPECTS OF CALCULATING THE COSTS OF
BORROWING AS A PERCENTAGE RATE

Submitted by

DOUGLAS D. IRWIN, C.A.,

Financial Consultant

Ontario Select Committee on Consumer Credit

Toronto,

Dec. 1, 1964.

SELECT COMMITTEE ON CONSUMER CREDIT

The subject matter, herein, is concerned with mathematical and administrative problems involved in the determination and disclosure of the cost of borrowing expressed as a rate percent of the principal sum.

The committee has received representations to the effect that:

- (a) in certain cases it is difficult if not impossible to determine, accurately, the cost of borrowed funds in terms of a rate percent per annum.
- (b) that if such a disclosure were required, serious administrative difficulties would be created.
- (c) that such disclosure would not be comprehended readily by the borrower.

Certain other arguments in opposition to such disclosure have also been advanced.

- (a) that, in certain cases, the charges made are not interest but represent service costs and other expenses.
- (b) that disclosure would result in a transfer of cost from money costs to the price of the article.

This memorandum does not deal with considerations of public policy but is confined to an assessment of these representations as they may bear upon mathematical and administrative feasibility.

Definitions and Assumptions

It is necessary to define certain meanings and comment on certain assumptions which commonly occur:

Interest vs. cost of money

The cost of borrowing money (or credit) includes values in respect to:

- (1) Pure interest
- (2) Risk
- (3) Service costs
- (4) Direct outlays (e.g. legal fees)

Pure interest is an economic concept of the value attached to the use of money, per se. It is a rent paid by the borrower to compensate the lender because he must defer the satisfaction of wants which immediate use of the money would otherwise bring.

Pure interest rarely exists. Perhaps the closest approach to pure interest is found in the case of a government Treasury Bill in regard to which service cost, direct costs and risk are, practically, non-existent.

It is argued that the costs of borrowing money should not be called interest because of the presence of the other factors in cost. However, the term interest is in common use (e.g. commercial bank loans and by insurance companies in respect to mortgages) even though factors other than pure interest are present. On the other hand lenders on conditional sales contracts abjure use of the term interest on the grounds that their charges are for service.

These different view-points appear to be matters of degree rather than of substance insofar as, except where pure interest occurs, every charge for the use of money includes, in some measure, at least three of the elements mentioned above.

Methods of calculation

There are several methods used to calculate cost of money as a rate percent. Those in more or less general use are:

(1) Constant ratio

—a short-cut formula which gives an approximation of the rate but which becomes more inaccurate as the terms of the contract are longer and the ratio of finance charges to principal becomes higher.

(2) Direct ratio

—a short-cut formula giving an approximation of the rate more exact than the constant ratio formula but still subject to margins of error which could lead to dispute.

(3) Add-on and yield formulae

—a % added on to the principal. These forms are used by those who expect a certain % yield return which is converted to a simple arithmetic add-on by use of tables. The tendency is to round-out the add-on % to even dollars and to apply the add-on dollars to ranges of loans within say \$10 intervals. The actual rate charged may vary significantly between that applicable to the loan at the lower end of the range and that applicable at the higher end of the range.

(4) Many variations of the foregoing methods are subject to the same criticisms. Many lenders develop their own formulae.

- (5) Simple interest calculations on a daily, yearly or other periodic basis with or without compounding.
- (6) Actuarial method

This is a general term describing methods used by actuaries to determine rates % employing higher mathematical formulae. For practical use, standard tables, derived from these actuarial formulae have been developed and are readily available. In addition actuarial tables, to suit special purposes, may be obtained from several publishing houses and actuarial organizations. In fact such special tables are in general use by lenders.

Accuracy of methods

It has been submitted that if you ask six different people to calculate the true rate of interest in regard to the same loan contract you may get six widely different answers. The inference is made that this demonstrates the futility and inaccuracy of making the calculations at all.

This criticism is a half-truth.

Because of the number of different methods it follows that if each of the six calculators use a different method different results will ensue. Furthermore some of the calculators may make different assumptions as to:

- (a) exclusion of some of the elements of the finance charge (e.g. legal fees)
- (b) compounding of interest

In regard to (a) it is obvious that for purposes of comparison, none of the factors may be left out of calculation.

In regard to (b) compounding should not be assumed unless it does, in fact, take place.

Certain tables are available which are based upon compounding at periodic intervals i.e. daily, weekly, monthly, quarterly, half-yearly, yearly. These tables are, in turn, sometimes applied incorrectly in respect to contracts which in reality do not include a compounding feature. When this is so the rate derived from the tables will not reflect the true rate applicable to the contract.

Compounding occurs only if interest is charged but is not paid (i.e. interest is carried forward). In most instalment payment contracts, for example, interest is paid as it accrues and no compounding actually takes place. It is a question of fact in every case whether or not compounding occurs. Lack of precision in regard to compounding may be corrected by exact stipulation in the contract.

In presenting a problem for solution to six different calculators the following should apply:

- (a) the terms of reference must be exact and identical for each calculator.
- (b) each calculator must use the same method.

If these conditions are met the six calculators will produce six identical answers (E. & O.E.) to the same problem. Similarly these conditions being applied to six different problems the six results will be mathematically comparable.

It follows from the above that if all lenders were required to use the same method of calculating the cost of borrowing as a rate percent a borrower would be enabled to make a valid comparison between rates offered by lender A or lender B for an otherwise identical loan.

Legislation, if enacted, covering disclosure of costs of money as a rate % would need, therefore, to establish a common terminology and a common basis for calculation, of universal application.

Selection of method

In respect to mathematical methods loan arrangements may be classified into general types:

- (1) Contracts requiring specified payments of principal and specified rates or amounts of interest (cost) each paid separately e.g. commercial bank loan, non-amortized mortgages. These are essentially simple or compound interest problems resolvable by arithmetic.
- (2) Contracts requiring blended payments of principal and interest e.g. conditional sales contracts, amortized mortgages. These are resolvable by use of actuarial methods.
- (3) Contracts which are combinations of 1 and 2.

As will be explained the revolving credit account is not readily reducible to simple mathematical formulae.

In respect to all other loan contracts a rate % may be determined by methods 1 or 2, or a combination of both.

Review of the various methods available leads to the conclusion that use of actuarial methods only provides means of calculation having universal validity in cases where simple interest calculations are impracticable.

An important point to observe is that while it may be a difficult mathematical exercise to deduce the true rate % from a stated case wherein the amount of finance charges is given but in which the rate is unknown to the calculator (borrower) it is a relatively simple exercise for the lender to select and state the rate to begin with and to derive, therefrom, the total finance charges exigible.

The writer has, therefore, evolved and caused to be produced actuarial tables for the "present value of an annuity of \$1 payable in arrears" at rate intervals of 1/100 of 1% per period (e.g. month). These tables result in annual rates moving at intervals of $\frac{1}{8}$ of 1% per annum. The margin of error for the annual rate cannot therefore exceed $\frac{1}{8}$ of 1% p.a. The range covered is from .005% per period ($\frac{1}{2}$ of 1%) to .0257% per period ($2\frac{1}{2}\%+$) and from 1 to 120 periods.

Disclosure with an accuracy of within $\frac{1}{8}$ of 1% p.a. might be considered sufficiently valid for purposes of comparison herein.

Use of the tables

In the case of blended payment contracts (or aspects of contracts) the rate may be found, using the tables as follows:

A Determine:

- (1) The principal advanced
- (2) The aggregate payable
- (3) The number of payments

B Multiply the principle by the number of payments ((1) \times (3) above) and divide by the aggregate ((2) above)

C A factor evolves from step B which factor may be found in the tables in a column of figures giving the monthly and the annual rate % applicable to the number of payments in the contract.

The writer does not suggest that a clerk making out a contract form should be required to go through all of these steps. Administrative burdens should be kept to a minimum.

Business experience, however, indicates that the clerk now performs step A with tables now in use. The clerk could also be provided with actuarially based tables which include steps B and C.

The clerk would perform essentially the same task but his new tables would not only provide the information presently given to the borrower as to principal, aggregate, finance charges and payment per month, all in dollars, but the rate % per annum as well.

Specific applications

The classifications and sub-classifications of loan contracts may now be analyzed and methods suggested for determining rates applicable to each:

1. *Small loans act*

Rates permissible by law are:

- 2% per month of the first \$300.00
- 1% per month on the next \$700.00
- ½% per month on the next \$500.00

Determination of the over-all effective rate for any given loan, by deduction, is a relatively difficult assignment. However, in consultation with one of the lenders under this act it was found that their present tables were readily adaptable to the declaration of a yearly rate for all categories of loan offered by them merely by pre-calculating the rates and adding them to their present schedules. Very accurate and comprehensive tables are used by this lender which comply exactly with the Small Loans Act for any amount of principal outstanding for any number of periods and provide ready calculations in regard to late, prior or skipped payments.

The writer has extracted part of this lender's published schedule of charges and has added a column to show the effective annual rate % calculated actuarially. The clerk in preparing the contract would merely read off and disclose the rate along with the information already provided by the tables. (see Appendix I).

2. *Conditional sales contracts*

Several retailers were requested to furnish information as to their present methods of determining finance charges and examples of actual loan contracts in their files. In all cases these contracts were found to be reducible to annuity problems and rates could be determined from the present value tables. Tables are presently in use based on the add-on principle. Effective rates % are not given. Upon analysis it has been found that the effective rates vary significantly in respect to dollar amounts of loans bearing the same add-on. Revised tables could be prepared showing effective rates and within narrower ranges of loan balances, based on actuarial tables. The procedure to be employed to determine an effective rate % are demonstrated in respect to an actual loan contract as follows:

Amount borrowed	\$ 256.77
Finance charges added	45.00
Aggregate to be paid	<u>\$ 301.77</u>
Payments required are:	
17 @ \$17.00	\$ 289.00
1 @ \$12.77	<u>12.77</u>
18 @ avg. of \$16.76	
(5)	<u><u>\$ 301.77</u></u>

Procedure

- (1) \$256.77 multiplied by 18 = \$4,621.86
- (2) Divide by \$301.77 = Factor of .15315836
- (3) From tables the factor .15315836 is very close to a rate of 21.12% p.a.

The same factor is also produced by dividing the principal of \$256.77 by the average payment of \$16.765. The rate would be the same 21.12% p.a.

Note The exact rate in the above problem is slightly higher than 21.12% because the last payment of \$12.77 is considerably below the level of the other payments. (In fact the exact is 21.36% p.a.)

This inaccuracy may be eliminated if regulations were to require that no payment might differ from the average of all payments by more than say 10%.

This rule applied to this problem would result in a comparative rate of 21.12% which would be within $\frac{1}{8}$ of 1% of the true rate.

3. Mortgage loan

—Fully amortized maturity

—All charges including legal fees to be included in calculation (Note where there are no charges other than interest the stated rate is the effective rate)

Example:

Principal		\$ 10,000.00
<i>Deduct</i>		
Legal fees	\$ 100.00	
Other	35.00	135.00
		<hr/>
Net to borrower		\$ 9,865.00
		<hr/>

Stated rate 6%

Term - 10 years

Blended payments of \$111.02 per month for 120 months

Aggregate of payments \$13,322.46

Solution

Determine actuarial factor

\$9,865.00 is present value of \$111.02 per month for 120 months.

Factor is

$$\frac{\$9,865.00 \times 120}{\$13,322.46} = 88,8574632$$

From tables the nearest rate is 6.36%

The exact rate is 6.30% but 6.36% is more accurate than either of the nearest other table rates of 6.24% p.a. or 6.48% p.a.

4. Mortgage loan

Blended payments but with a balloon payment at maturity. Part of the principal is amortized over a term the balance being due at maturity.

- (a) Where there are no charges of any kind the stated rate is the effective rate.

- (b) Where there are other charges we have two problems
 —An effective rate to maturity on the amortized portion
 —The stated rate on the balloon payment

Example

6% 10 year mortgage of \$10,000.00	
\$5,000.00 remaining at maturity	
Principal payable over 10 years	\$ 5,000.00
<i>Deduct</i>	
Costs	120.00
	<hr/>
Net received	4,880.00
	<hr/>

The loan is payable as to \$5,000.00 principal in blended payments of \$55.51 p.a. plus interest on the balloon. Aggregate of blended payments if \$6,661.23. \$4,880.00 is p.v. of \$55.51 for 120 months

Solution

$$\begin{array}{rcl} \text{Factor is} & & \\ \$4,880.00 \times 120 & & \\ \hline & = & 87,9116919 \\ & & \$6,661.23 \end{array}$$

From tables the nearest rate is 6.48% p.a. (actually 6.54%) in respect to the amortized portion of the loan. Stated rate of 6% applies on the balloon portion.

5. Mortgage loan

Fully amortized with bonus and charges

Example

6% mortgage payable over 10 years	
Principal	\$10,000.00
<i>Deduct</i>	
Bonus	\$ 2,000.00
Charges	1,000.00
	<hr/>
Net cash received	\$ 7,000.00
	<hr/>

Payable over 120 months @ \$111.02 per month.
 Aggregate payable is \$13,322.46.

Solution

$$\begin{array}{rcl} \$7,000.00 \text{ is present value of 120 payments at } \$111.02 & & \\ \text{per month} & & \\ \text{Factor is} & & \\ \$7,000.00 \times 120 & & \\ \hline & = & 63,05141843 \\ & & \$13,322.46 \end{array}$$

From tables the nearest rate is 14.52% p.a. (actual rate 14.55% p.a.)

6. Mortgage loans

Partially amortized loan with bonus and charges

Example

6% mortgage of \$10,000.00 payable as to \$5,000.00 by amortization over 10 years with \$5,000.00 balloon at maturity (10 years hence).

Statement of loan

	Amortized	Balloon	Total
Principal	\$ 5,000.00	\$ 5,000.00	\$10,000.00
<i>Deduct</i>			
Bonus	\$ 1,500.00		
Charges	300.00	1,800.00	1,800.00
Net received ...	\$ 3,200.00	\$ 5,000.00	\$ 8,200.00

Payable as to \$5,000.00 amortized at \$55.51 per month for 120 months plus interest on the balloon.

Aggregate payable is \$6,661.23 re the amortized portion.

Rate on amortized portion is

Factor is

$$\frac{\$3,200.00 \times 120}{\$6,661.23} = 57.64701$$

Nearest rate from table is 16.92%

(actual 16.94%)

Rate on balloon is the stated rate of 6%

7. Non-amortized mortgages

Where principal is paid separately and interest is calculated and paid separately.

The rate of interest charged is known to the lender otherwise the finance charge is purely arbitrary and a rate must be derived. Representative types are:

- Non-amortized mortgage with no bonus, no charges and a stated rate. There is no problem in this case as the stated rate will be applied to the unpaid balance from time to time and will, in fact, be the effective rate.
- Non-amortized mortgages with bonus and charges

Example

Loan of \$12,000.00 payable as to principal over 10 years at \$100.00 per month plus interest at 6% charged and paid as accrued and subject to bonus and other charges.

Statement

Principal		\$12,000.00
Less		
Bonus	\$2,000.00	
Charges	1,000.00	3,000.00
Net received		\$ 9,000.00

By factoring the account at .05% per month we determine that total interest charged on \$12,000.00 for 10 years is \$3,630.00. Total costs of borrowing \$9,000.00 are \$6,630.00 (\$3,000.00 plus \$3,630.00). Total payments amount to \$15,630.00. By use of algebra we determine that:

\$9,000.00 is the present value of the sum of all the payments with interest at .0113% per month or a nominal annual rate of 13.56% p.a. chargeable monthly.

8. Skipped payment contracts

These problems are of two types

- payments defaulted by borrower
- deferred payments written into the contract

Defaulted payments pose no significant problem. Once the effective rate is known (and in most cases it is known to the lender and if not known it may be derived) that rate may be applied to the principal included in the defaulted payment for the number of days of default and thus determine the additional charge in dollars. Deferred payments written into the contract present no problem if the rate is known to the lender. The additional interest charges in respect to the deferred payment may be calculated as in the foregoing paragraph. If the rate is not known it must first be derived. If we are required to derive a rate from a stated case the mathematical problems are more difficult.

Example

Conditional Sales Contract

Automobile sold to a teacher

Amount to be financed	\$2,400.00
Finance charges	460.00

Aggregate	<u>\$2,869.00</u>
-----------------	-------------------

Payable \$100.00 per month from February 1962 to September 1964 both inclusive except July, August, September 1962. There are 28 payments of \$100 and 1 payment of \$60.00. Average payment is \$98.62 per month.

Procedure

- (1) Factor the account in regard to skipped payments—3 payments of \$100.00 each, each deferred 24 months is equivalent to \$7,200.00 for 1 month.
- (2) The interest charged on \$7,200.00 = X
- (3) $\$2,400.00 = \text{p.v. of } (\$98.62 - X) \text{ for 29 mos. at } i\%$

29

(4) We may solve by algebra or by inspection

(5) Using inspection

Assume a rate of 1% per month

Interest on \$7,200.00 is \$72 for one month at 1%

Reduce aggregate and charges by \$72

Revise problem:

Principal	\$2,400.00
Charges	388.00
Aggregate	<u>\$2,788.00</u>

Factor is $\$2,400.00 \times 29 = 24,96413199$

\$2,788.

The nearest table rate here is 1.03% per month or 12.3% p.a. In actual fact the rate used was probably 12% p.a. with the charges rounded off to the nearest \$10.00

(Note the foregoing is a simplified version of rather more complex exact procedures used)

Example

A truck sold to a farmer

Principal to be paid	\$1,200.00
Finance charges	138.00
Aggregate	<u>\$1,338.00</u>

Payments on 13th of each month

September, October, November 1962	\$200.00 each
April, May 1963	\$100.00 each
September, October 1963	\$150.00 each
November 1963	\$238.00 balance

All other months skipped.

Procedure

This is a problem in factoring. The principal outstanding from month to month is the equivalent of \$8,400.00 outstanding for one month.

$\$138.00 = \$8,400.00$ at 1% for 1 month

$= 1.6428\%$ per month or

$= 19.7136\%$ p.a.

(Note the foregoing is also a simplified version of more complex procedures used).

A common criticism of rate disclosure is that the salesman or clerk would find it extremely difficult to cope with the problem of disclosure and additional charges on interrupted contracts. The foregoing illustrations are of this type and show that a rate is determinable. The office of the lender should and does pre-determine the rate of charge and furnishes the salesman or clerk with tables use of which plus elementary arithmetic provides the extra dollar charges on skipped payments.

The problem of the salesman or the clerk is very much overemphasized. In practise additional charges on defaulted payments are ignored in most cases. The lender relies on his title rights and collection procedures and accepts the very slight loss of interest rather than make marginal calculations. In cases where deferred payments are written into the contract the additional charges are pre-calculated by table so that the salesman or clerk is not normally required to make individual calculations on the spot.

9. Cycle credit accounts

Budget accounts

The budget account is one wherein a purchaser undertakes (at the beginning) to pay off a specific balance over a stated number of months including finance charges.

The rate may be determined in the same manner as applies to a conditional sales contract. However the buyer retains the initiative (with the concurrence of the lender) to alter the contract by:

- (a) buying additional items
- (b) paying more or less than agreed.

Whenever the borrower thus alters the terms of the contract a new formula develops.

Insofar as this initiative is exercised frequently (perhaps monthly) it might be considered an onerous task to impose upon the lender a recalculation of the rate each time the terms of contract change.

Some modification of rate disclosure may have to be considered. One suggestion is a % charge based on current month's balance, mid-month balance or average balance.

Revolving credit accounts

These are arrangements whereby the buyer is permitted to carry balances up to a stated maximum and is required to make a stated monthly payment.

The buyer retains the initiative to:

- charge any amount any time
- pay any amount any time.

The lender makes a monthly charge based upon the previous monthly balance. A period of grace is allowed in respect to payments received within 3 or 4 days after the previous billing date. Otherwise no recognition is given in respect to the varying amounts of credit actually extended from one billing date to the next. Action by the lender to correct or compensate for variations from the original terms are post facto.

It has been observed that finance charges expressed as a rate % can be very high.

Example

Previous balance April 15	\$	431.75
Charge at next billing date May 15	\$	4.95
Payment made April 20	\$	331.75
Monthly payment required was \$22.00		

In this case the charge of \$4.95 would still be made even though the payment of \$331.75 reduced the debit balance to only \$100.00 for 25 days of the billing month (April 20-May 15). The rate % charged on the \$100.00 for 25 days is exceedingly high. The opposite may also hold true.

Example

Balance on March 15	Nil
Purchase on March 16	\$ 431.75
Balance on March 15	Nil
Purchase on March 16	\$ 431.75
Charge on May 15 (based on nil balance on April 15)	Nil

In this case \$431.75 credit has been extended to the buyer for 29 days at no charge at all.

In such circumstances it is obviously unreasonable to expect the lender to determine the effective rate % from day to day.

There is no easy practicable method of resolving this problem by tables or mathematical formulae.

Alternative solutions may be suggested for compliance (at least partially) with disclosure requirements in terms of a rate %.

These are:

- (1) Require statement of a monthly rate % (and/or an annual rate %) along with or in substitution for dollar monthly charges now given.
- (2) Require one monthly or annual rate in place of a scale of charges and rates.
- (3) Extend period of grace (for recognition of payments between billing dates) to 15 days after previous billing date. (This would substantially reduce variations of actual rate from the stated rate).

GENERAL OBSERVATIONS

Public reaction

It has been submitted to the Committee by some lenders that:

- (a) the public wishes finance charges to be expressed in dollars
- (b) the public would not comprehend disclosure in terms of a rate %.

These opinions appear to be subject to more conclusive verification perhaps by sampling of consumer reaction on a substantial scale.

Certain observations may also be made. In regard to:

- (a) disclosure of a rate % need not be a substitute for cost stated in dollars but in addition thereto. If the public does, in fact, prefer the cost in dollars it is in no way hampered by also being given the rate %.
- (b) the cost of borrowing is still being taught in schools in terms of a rate %. Many types of loan are still being quoted at a rate % e.g. conventional mortgage loans, commercial bank loans. The average householder is likely to have been exposed to quotation of a rate % in some instances. He also may be expected to have borrowed on a conditional sales contract in regard to which only dollar costs have been stated. If the borrower has understood the meaning of rates % as quoted by lenders of mortgages he might also be expected to comprehend the meaning of rates % quoted by lenders on conditional sales contracts. It would seem that common terms of expression in regard to both types of lending contracts would tend to reduce rather than to increase confusion. If expressed in the same terms comparability of various sources of funds becomes possible.

Administrative aspects

Imposition of requirements for disclosure of money costs as a rate % might impose new administrative problems upon business and the impact of such a burden should, no doubt, be minimized.

It has been found that the determination of finance charges is now performed by clerks furnished with readily-interpreted tables. It is submitted that the determination of rates % may also be revealed by use of tables and this being so administrative problems would not be significantly enlarged.

It has also been found that, in almost all cases, existing tables are based on a rate known to the lender. It would appear that disclosure of this rate would not present a major difficulty.

Transfer of money costs

Disclosure of money costs as a rate % may result in a transfer of some part of these costs to the price of the article. Lenders on conditional sales contracts might consider it to be competitively beneficial to reduce finance rates and recover any loss resulting by an increase in prices.

This type of adjustment would only be available to retailers who are also lenders and would not be available to lenders of money only. If disclosure of rates were generally deemed to be advisable this method of apparent escape in a limited sector should not invalidate the desirability of such disclosure in respect to all other lending forms.

In the retail field one may assume that a double competition of finance rates and prices would ensue but such competition would eventually result in equilibrium. The buyer would be required to make comparisons both as to rate and price as between vendors but at least such comparisons would be valid. This would be more comprehensible than at present when apparent low prices may be offset by finance charges which are not readily measurable for competitive buying.

SUMMARY

1. It is mathematically possible to determine a rate % on all loan situations by use of:

- actuarial methods
- arithmetic methods

2. Practically, it would be an intolerable administrative burden to use the above methods from first principles to determine rates on individual contracts but rates may be readily determined for an individual contract by development of tables of universal application to all contracts of a specific lending classification (with the exception of cycle credit accounts which are subject to special circumstances).

3. Disclosure requirements should be of universal application and the basic methods of calculating rates should be determined for each classification of loan contract.

4. Use of tables would not appear to add a significant administrative burden insofar as tables are presently used, extensively, to determine finance charges.

However, practical considerations suggest that the tables should permit a measure of tolerance when applied to a particular contract. A degree of accuracy of $\frac{1}{3}$ of 1% p.a. has been suggested but this could be further refined.

5. A common language of expression and common criteria of measurement should be sought so that rates be comparable. Pursuant thereto it would appear necessary that all elements of the cost of borrowing in all contracts must be included in the calculations. In the case of blended payment contracts all payments should be nearly equal (say within a variation of 10% from the average).

6. Cycle credit accounts may have to be considered separately. If the buyer (borrower) retains the initiative the lender may have to be permitted some tolerance in regard to disclosure of the effective rate applicable from day to day. Compliance with rate disclosure might be confined to declaration and imposition of a monthly and/or annual rate % on the current balance or average balance.

7. Disclosure of a rate % may be in addition to, not in substitution for, disclosure in dollars thereby providing for common language and measurement without disturbing possible borrower preferences.

Douglas D. Irwin
Financial Consultant
to the Committee.

Toronto,
December 1,
1964.

NIAGARA FINANCE COMPANY LIMITED
SMALL LOAN EVEN DOLLAR REPAYMENT CHART

Do not Use Other than Amounts and Terms shown on this Chart for Small Loans

	Present information			Additional information			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	12 Months			Interest Rate %		Interest Rate %	
	Monthly Payment	Cash Adv.	Ins. Prem.	Per month (excluding insurance)	Per annum	Per month (including insurance)	Per annum
300.00	6	63.45	.29	2.00	24.0000	2.08	24.96
	8	84.60	.38	2.00	24.0000	2.08	24.96
	10	105.75	.48	2.00	24.0000	2.08	24.96
	12	126.90	.57	2.00	24.0000	2.08	24.96
	14	148.05	.67	2.00	24.0000	2.08	24.96
	16	169.21	.76	2.00	24.0000	2.08	24.96
	18	190.36	.86	2.00	24.0000	2.08	24.96
	20	211.51	.95	2.00	24.0000	2.08	24.96
	22	232.66	1.05	2.00	24.0000	2.08	24.96
	24	253.81	1.14	2.00	24.0000	2.08	24.96
	26	274.96	1.24	2.00	24.0000	2.08	24.96
	28	296.11	1.33	2.00	24.0000	2.08	24.96
	30	317.43	1.43	1.99	23.88	2.06	24.72
	32	338.92	1.53	1.98	23.76	2.05	24.60
	34	360.52	1.62	1.96	23.52	2.03	24.36
	36	382.25	1.72	1.94	23.28	2.00	24.00
	38	404.08	1.82	1.91	22.92	1.99	23.88
	40	425.96	1.92	1.89	22.68	1.96	23.52
	42	447.91	2.02	1.86	22.32	1.94	23.28
	44	469.94	2.11	1.84	22.08	1.91	22.92
	46	491.96	2.21	1.82	21.84	1.89	22.68
	48	514.08	2.31	1.79	21.48	1.87	22.44
	50	536.23	2.41	1.77	21.24	1.85	22.16
	55	591.66	2.66	1.72	20.64	1.83	21.96
	60	647.29	2.91	1.68	20.16	1.75	21.00
	65	702.97	3.16	1.64	19.68	1.71	20.52
	70	758.81	3.41	1.60	19.20	1.71	20.52
	75	814.65	3.67	1.57	18.84	1.64	19.68
	76	825.82	3.72	1.56	18.72	1.63	19.56
	80	870.53	3.92	1.54	18.48	1.61	19.32
	85	926.55	4.17	1.51	18.12	1.58	18.96
1,000.00	90	982.56	4.42	1.49	17.88	1.56	18.72
	92	1,004.99	4.52	1.48	17.76	1.56	18.72
	93	1,016.25	4.57	1.47	17.64	1.55	18.60
	94	1,027.51	4.62	1.47	17.64	1.54	18.48
	95	1,038.77	4.67	1.46	17.52	1.53	18.36
	96	1,050.02	4.73	1.46	17.52	1.53	18.36
	97	1,061.28	4.78	1.45	17.40	1.52	18.24
	98	1,072.54	4.83	1.45	17.40	1.52	18.24
	99	1,083.80	4.88	1.44	17.28	1.51	18.12
	100	1,095.10	4.93	1.44	17.28	1.51	18.12
	101	1,106.41	4.98	1.43	17.16	1.50	18.00
	102	1,117.72	5.03	1.43	17.16	1.50	18.00
	103	1,129.03	5.08	1.42	17.04	1.49	17.88
	104	1,140.34	5.13	1.42	17.04	1.49	17.88
	105	1,151.68	5.18	1.41	16.92	1.48	17.76
	106	1,163.01	5.23	1.41	16.92	1.48	17.76
	107	1,174.35	5.29	1.40	16.80	1.47	17.64
	108	1,185.68	5.34	1.40	16.80	1.47	17.64
	109	1,197.05	5.39	1.39	16.68	1.46	17.52
	110	1,208.43	5.44	1.39	16.68	1.46	17.52
	111	1,219.82	5.49	1.38	16.56	1.45	17.40



Second Session—Twenty-sixth Parliament
1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 12

TUESDAY, DECEMBER 8, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESS:

Confederation of National Trade Unions: Mr. André Laurin, Technical
Advisor of Educational Service, Family Budget Section.

APPENDIX

O—Brief from the Confederation of National Trade Unions

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-
Rainy River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved—That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON J. RAYMOND,

Clerk of the House of Commons.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof.”

LÉON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On Motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, December 8th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.30 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*) and Stambaugh, and

House of Commons: Messrs. Greene (*Joint Chairman*), Clancy, Macdonald, Mandziuk, Marcoux, Otto and Saltsman—9.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Marcoux, it was Resolved to print the brief submitted by the Confederation of National Trade Unions as Appendix O to these proceedings.

The following witness was heard:

Confederation of National Trade Unions: Mr. Andre Laurin, Technical Advisor of Educational Service, Family Budget Section.

In attendance but not heard were: Mr. Jean Louis Gagnon, Technical Advisor and Miss Georgette Lachaine, Vice-President.

At 10.55 a.m. the Committee adjourned until Tuesday next, December 15th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, December 8, 1964

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 9.45 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

A motion was adopted that the brief prepared by the Confederation of National Trade Unions be printed in the report of the proceedings.

(See Appendix "O")

Co-Chairman Senator CROLL: Gentlemen, we have appearing before us today representatives of the Confederation of National Trade Unions. On my right is Mr. André Laurin, Technical Adviser of Educational Service of the Family Budget Section. Next to him is Mr. Jean Denis Gagnon, who is the legal adviser, and at the end is Miss Georgette Lachaine, the vice-president.

I have spoken to Mr. Laurin, who has told me he will commence by reading the recommendations, after which he will subject himself to examination.

Mr. André Laurin: Mr. Chairman, these are the recommendations of the Confederation of National Trade Unions concerning our Report:

1. (a) that the interest rate not exceed 0.75% per month (9% per annum) on the unpaid balance, rather than on the duration of the loan, in other words, that it be a simple decreasing rate.
- (b) We know that the finance companies maintain that such a rate of interest would drive them to bankruptcy.

We also know that credit unions and other money-lending institutions survive with 6, 7, and 8% decreasing rates.

On the other hand, losses caused by defaulted payments constitute in fact a very low percentage in the case of small loans, for instance:

Finance companies borrow money at a low rate and lend it to their customers at usurious rates.

The consumer pays very high prices for the numerous intermediaries who are engaged in costly and useless competition at the consumer's cost.

The companies should not talk so much about the risks they incur. They are privileged by a legal system which permits them to avail themselves of lawyers, courts of justice, bailiffs, and of the merciless severity which society and the judicial system permits them.

In view of the continuing abuses, the usurious rates of interest prevailing in Canada, the claims of finance companies and other money-lending institutions, the importance of credit buying, the consequences of credit buying on the consumer's purchasing power and the economic importance of this question, we suggest that a royal commission be constituted to inquire into the interest rates prevailing in Canada.

2. That the banks, finance companies and lending or savings co-operatives set a credit ceiling for their clients which corresponds to the latter's ability to repay.

The capacity to repay can be established by analysing the client's revenues and liabilities. By doing so, one would encourage cash buying and better control of the family budget. This has been done. We have just distributed a paper which enables us to evaluate exactly the repaying capacity of a family.

3. That the interest on the month-end balance, the hidden cost of refinancing, the imposition of car repair costs without the first buyer's consent be abolished.

4. That the cost of a loan appear clearly on every contract.

The Small Loans Act should protect loans up to \$5,000.00. The present law provides for the following interest rates: \$300.00 loan, 24%; \$1,000.00 loan, 20%; \$1,500.00, 16%.

Now, a \$1,500.00 loan means 30 repayments of \$60.00, in all \$1,800.00, i.e. a cost of \$300.00.

But we know that \$1,500.00 loans are not covered by the law.

It is difficult to obtain a loan of \$1,000.00 to \$1,500.00, but a \$1,500.01 loan is easier. Here is why: \$1,503.00 means 30 repayments of \$65.00, in all \$1,950.00. The result is that a \$1,500.00 loan will cost \$300.00, whereas a \$1,503 loan costs \$450.00; \$3.00 cost \$147.00.

Many second mortgage lenders, i.e. lenders for the purpose of debt consolidation, advertise above all loans exceeding \$1,500.00. We attach in Annex IV a document showing interests varying between 38 and 45%. This is in the province of Quebec. We did not inquire about mortgage lending in other provinces. Here we have a \$2,326.05 loan, the cost of which is, for 7 years, \$3,201.15; the total repayment is \$5,527.20. It is the usual practice and is currently done in Quebec.

The Small Loans Act should be totally revised; we suggest:

(a) that the act put a ceiling of 9% on the interest rates for small loans up to \$5,000.00.

(b) one sole decreasing interest rate not exceeding 9% per year.

5. That the "budget plan" be abolished. These "budget plans" are the same all over the country, and they are fundamentally dishonest. We have proof in an excerpt of a speech by the Chairman of the Senate committee, Senator Croll, who said he had gone to Simpsons-Sears two or three years ago; he reports the opinions of the manager and the assistant manager and shows that these plans were dishonest.

Therefore, we insist that the budget plan be declared illegal in the whole country.

6. That for credit sales outside the permanent business place (in the home, etc.) the consumer be able, within 7 days, to send a notice of cancellation of the contract by registered mail. All cash payments will be completely reimbursed and neither the salesman nor the firm or the organization responsible for the peddling may claim damages.

With regard to buying, it is proved that credit buying is detrimental to the consumer. Have we thought of calling for a radical reform, i.e. suppression of credit buying, a system which is deeply rooted in the North-American way of life? Credit buying would be replaced by cash buying thanks to a credit margin allowed by the banks, the savings-banks, and other institutions that assist the consumer. However, we feel that, before suggesting a complete reform of the purchasing practices of consumer goods, we might perhaps hope that the government implement at last the necessary measures to remedy these abuses and protect the consumer's purchasing power.

We ask that the vendor be obliged to indicate clearly in the contract of an instalment purchase the price of the product and the difference between the cash price and the price of each item purchased on the instalment plan, as well

as interest and other costs. This would permit the purchaser to realize the uneconomic nature of the instalment system and decide not to engage in such transactions. The purchaser would thus be able to verify the real cost of the credit purchase.

Furthermore, we insist that section 6 of contracts such as I.A.C. for cars be declared illegal. This would force the vendor to be more cautious than he is now when establishing the purchaser's repayment capacity, and it would reduce abuses. I think that we, of the C.N.T.U. are able to prove that the "acceptance credit" really kills the purchasing power rather than be the cause of prosperity, as the finance companies like to brag, saying that they are the cause of the country's prosperity; however, we have ample proof that they are not.

It happens too often that the consumer is not aware of the full significance of the obligations he assumes by signing a contract for a credit purchase. Often, salesmen and lending institutions conceal the nature of the obligations of a contract. Such practices condemn thousands of consumers to the tyranny of usury while reducing the workers' already limited purchasing power.

The extension of instalment buying without making the conditions of the contract more rigid, especially with regard to the *immediate transfer of property rights*, would be in our view a most deplorable development. If very strict conditions were made for deferred payments, it would probably be right to say that this system encourages thrift, but then the "pressure sales technique" by which homes are invaded must be restrained.

For the community it would be desirable that savings increase so that budgets could be balanced. However, there is the risk of bad investments which could easily cause economic fluctuations, even though today the community has more possibilities for planned economic development.

We are convinced that credit buying is a social evil. It creates the illusion that most people can easily buy consumer goods which; normally, they could not have in our economic system. But it is a deception. Not only do consumers buy new and second-hand goods and articles at full price, they also have to pay usurious interest rates.

In view of the low income of numerous families, this buying method, the yoke of finance, reduces even more, the already precarious purchasing power and the standard of living of too many citizens.

Mr. MACDONALD: Mr. Chairman, I should like to ask the witness whether there is any legislative committee or governmental study under way at present in the Province of Quebec, either specifically in respect to consumer credit or particularly regarding the problems of consumers generally?

Mr. LAURIN: No, at the level of the provincial legislature there is no board of inquiry at the present time. Recently I got in touch with the office of the Attorney General for the province of Quebec to tell them about the files concerning certain firms and they replied that nothing would be done until the Report of the Federal board of inquiry had been published.

Mr. MACDONALD: The reason why I ask that, is that a number of the recommendations suggested in your brief appear to require changes in the law which would be entirely within provincial jurisdiction. In some cases witnesses have appeared essentially with the same brief they presented to provincial committees. I wonder if you have the same basis for yours?

Mr. LAURIN: No, we have not as yet submitted a brief to the provincial government concerning the structure of deferred payment sales.

Mr. MACDONALD: With regard to your recommendation there be a maximum interest rate, do I take it that applies not only to the Small Loans Act but in any kind of credit whatever, the 9 per cent?

Mr. LAURIN: Yes, for any form of credit, whether for goods or anything else. In fact, we attach the greatest importance to the maximum rate being set at 9 per cent. Several European countries have set a rate that does not exceed 8 per cent either for merchandise financing or consumption so I am convinced that if in European countries they can finance deferred payment sales with 8 per cent then why should we not be able to do so in Canada?

Mr. MACDONALD: Mr. Chairman, I wonder if I could ask a question of Mr. Urie? Is the budgetary plan described in the brief one that is nationally in use?

Mr. URIE: It doesn't seem to me to be similar to the plan—

Mr. LAURIN: That is revolving credit we have been discussing before.

Mr. MACDONALD: This budgetary plan does not, in that respect, resemble the type we have described in previous weeks here?

Mr. LAURIN: Yes, that is cyclical or revolving account.

Mr. MACDONALD: There are some drastic examples here, and you say that at a particular time the interest or cost of loan payment can be up to 547 per cent. Would the same mathematics or conclusions apply to ones we have previously discussed?

Mr. LAURIN: Yes.

Mr. MACDONALD: We could have the same possibility then?

Mr. LAURIN: Yes it is national, from Vancouver to Halifax, the permanent budget plan is not peculiar to Quebec.

Mr. MACDONALD: I understood from you it was in use by a national firm like Eaton's or Simpson's, as well as by local retailers.

Mr. LAURIN: Exactly.

Mr. MACDONALD: Thank you.

Mr. LAURIN: Then I would like to be asked about interest which actually reaches 54% in some cases and that is what we are providing to you in the documents.

Mr. URIE: In point of fact, is it quite fair to say the interest rate is 500 per cent? Wouldn't you concede that any person granting credit has certain basic charges which he must absorb when he advances credit, whether it be for \$5 or \$5,000 or for one day or five years? When you take an instance such as you have here, when you say that for one day's use of money the interest rate is 547 per cent, that is not quite fair, because of that 547 per cent there are certain basic costs the credit grantor must absorb.

Mr. LAURIN: Yes. Of course, when we speak of 547 that is the amount paid, it is not the interest, it is the total cost. You will note, however, that at the end of the explanations regarding the budget plan we clearly specify that it is a monthly mixture of two rates; a mixture of 18 per cent and a mixture of X per cent. All depends on the monthly date of purchase for the following month. So it can happen, in the budget plan, the rates may vary at any time between 30, 40 and 50 per cent. It is not 18 per cent either.

So that is what we take as a basis when we say that the budget plan is absolutely dishonest because it is maintained that it is 18 per cent when that is not true, the rate of interest may vary between 35% and 40%. That is the rate, and not 18%. That is why the budget plan is dishonest.

In addition, they try to extend this facility; in Toronto, Winnipeg, Vancouver, Montreal, Quebec, anywhere in Canada, when a store opens the merchants send credit cards to thousands of people offering them credit up to \$500, that is the budget plan. Some women have budget plans in ten or fifteen stores in a city and the husbands who are in a low salary bracket, cannot absorb the budget plans their wives have in all the stores.

Co-Chairman Senator CROLL: Let us be clear again. I think Mr. Macdonald attempted to clarify it, and I wonder if it is clear. The reference here to budgetary plan is what we have been calling revolving credit, is it not?

Mr. LAURIN: Yes, and cyclical account.

Co-Chairman Senator CROLL: That is the reference, is it, so we understand each other?

Mr. L'HEUREUX: Yes, that is right.

Mr. OTTO: Mr. Chairman, I do not know which of the three witnesses is the Social Credit expert, but on page 11—

Co-Chairman Senator CROLL: It is a different page on his copy.

Mr. OTTO: Where it says:

FINDINGS

Purchasing Practices: It is shown that credit buying is harmful to the consumer. Has any thought been given to a radical reform which would abolish a practice so deeply imbedded in our North American way of life?

Mr. Marcoux, you are listening to this?

Credit buying would then be replaced by cash buying made possible through the credit margin authorized by banks, savings unions and other institutions, for the benefit of the consumers.

The first question is: You have stated it is shown that credit buying is harmful to the consumer. Are you saying all credit buying is harmful to our economy, or are you saying that the malpractice of credit buying is harmful to the consumer?

Mr. LAURIN: I am sorry I did not quite get that. I do not think the French version follows your text exactly. In theory, I think, I understood you said that we are opposed to credit?

Mr. MARCOUX: He is asking whether you are categorically opposed to credit or whether in some cases you approve of credit?

Mr. LAURIN: We are not opposed to the constant injection of capital into the Canadian economy. There should be no misunderstanding on that point. It is an asset if it is done in a sound manner and not in a way that kills purchasing power. For example, I will give you some statistics we obtained, which are in the document I offered you a moment ago.

Mr. OTTO: Mr. Chairman, I am just asking the witness to explain the statement. He said, "It is shown that credit buying is harmful to the consumers."—in the first line. I do not know if you have that.

Co-Chairman Senator CROLL: He has it. You hear a translation.

Mr. OTTO: You say:

FINDINGS

Purchasing Practices: It is shown that credit buying is harmful to the consumers.

Mr. LAURIN: Our brief is entirely in favour of credit, but cheap credit which gives the consumer purchasing power and not credit that kills his purchasing power. For example, we made a study of a determined sector—

Co-Chairman Senator CROLL: Wait a minute; wait a minute. I am not getting anything from the translation booth. Is somebody in the booth?

Mr. MACDONALD: Yes, two of them.

Mr. LAURIN: We are definitely in favour of credit, but credit which will not lead to exploitation. What we want really, is legislation that will be en-

acted so that there will be no exploitation, so that no exploitation will be possible.

For instance we particularly have in mind the industrial acceptance companies' automobile contracts, particularly with regard to clause 6. It is simply a clause involving the regression of individual purchasing power. Hence we are against it.

We are in favour of credit but in such a way that credit will be cleaned up. I will show that consumer credit at the present time, the present system, where consumer credit to people in the lower salary brackets—I will bring along official statistics. We carried out surveys in certain areas of Quebec and in the space of two months we received a little over 10,000 families who came to set up their budget with us. We had them prepare a statement of their debts and their purchasing power. Well, the debts of those 10,000 families varied between \$4,000 and \$8,000 and each one of the 10,000 families had an average of 30 to 50 creditors. When we speak of creditors, of debts, the house is not included because property, as far as we are concerned, is an asset. Many of the families had definitely more than 50 creditors. We even found one case, I will admit it was exceptional, but we want to mention it to show that the present consumer credit system is ridiculous, he had 107 creditors all to himself.

When you think that the credit system accepts that everyone, in hundreds of cases, can make purchases and pay instalments in any store, it kills the purchasing power. At the beginning of our brief we fully explained the matter of deferred payment sales, when the first refinancing takes place, and everyone knows that families must reimburse such deferred payment sales on an average every six months in order to buy new products or new goods. For consumer credit the interest on a \$1,000 loan is \$45 for 6 months according to the contract, that is what is written in the contract. But in fact if you take a \$1,000 loan for 6 months, families have a margin they cannot manage to pay, that is \$600 in interest and this literally kills the purchasing power of the individual.

Mr. OTTO: Well, I think we have gone through this in brief. What you are really saying is that malpractice, bad credit facilities, prevail. I do not intend to get into any political argument with you on the next portion of your statement, that there should be a new social credit policy. But I am saying that you will also recognize that some of the fault of the malpractice of consumer credit is the gullibility or the weakness of some of the purchasers. I cannot see, and surely you cannot point out how, this is going to improve by credit being extended by the banks, savings unions and other institutions. The ills, the malaise, will still be with us. I am not putting this as a question, however, because if I did the discussion would go on for the next hour. Mr. Marcoux will probably pursue that end of the statement. That is all, Mr. Chairman.

Mr. MANDZIUK: Mr. Chairman, I wonder whether the witness has given any consideration to studying other briefs that have been presented to us up until now? Has he access to them?

Mr. LAURIN: All I have is the brief of the Chamber of Commerce. It is the only one that was sent to my office. It was Senator Vaillancourt who sent it to me.

Mr. MANDZIUK: I address my next question to the Chair. Are these reports not accessible?

Co-Chairman Senator CROLL: I am informed that the people are on the mailing list, and that they will get them as fast as they are printed.

Mr. MANDZIUK: So, apparently the witness has missed what this committee is trying to establish. Would you agree with us that disclosure is more important than clamping down on interest rates? What has the witness to say

on that, with regard to disclosure, so that the consumer could shop from place to place and find out from what concern or what finance company, or *caisse populaire*, where he can get the cheapest credit?

Mr. LAURIN: Yes, that is precisely what we do. For the past two years the Confederation of National Trade Unions has had a team of 700 speakers who gave public courses for 9 consecutive months, from September to May, and informed people where they could get cheap credit. I can assure you we have had a request from Toronto and we intend to send them a favourable reply so that we can start our classes in Toronto. Our office has received two requests. But however effective mass education may be, it cannot be truly effective unless it is backed by legislation, and our action will remain limited. It will not reach 100 per cent of the population.

However, if the Chairman will allow me, I would like to answer a question. I am not sure, but I think it was the hon. member sitting on my right who asked me a moment ago how a bank loan could limit the purchasing power of an individual? Well I have given you a document regarding a loan for a car. When we go to a garage operator we sign a contract and we know that it is a contract for the purchase of a \$1,500 car. We are given a \$700 allowance.

The CHAIRMAN: For the purchase of what?

Mr. LAURIN: For purchasing a car, an automobile. We are given a \$700 trade-in allowance and thus \$450 remains to be paid. But when the contract has been sold to the finance company the cost of the car which was \$1,150 goes up, at the finance company, to \$1,450 and the trade-in allowance of \$700 granted, is reduced to \$600. Thus, instead of paying \$450 for the new car it now costs \$1,150 plus the cost of financing. It is the same thing for all the companies. If the family had borrowed \$450 from the bank they would have come out of the bank and the car would only have cost \$450. This credit, therefore, costs them \$1,150 or \$700 more. This means that the family were not able to buy other consumer goods with the \$700 extra they paid when they went to the finance company. Thus we are convinced that the present system kills purchasing power.

Now, I would very much like to be asked questions if it is possible.

Mr. MARCOUX: Well, I would like to explain to Mr. Laurin the last points explained by Mr. Otto. Before we go any further the C.N.T.U. has never supported Social Credit although in some cases former candidates were members of the NDP. That is what Mr. Otto said—it is not my opinion—but as you say, if the finance company can negotiate with a bank it means that the customer who borrowed from them has sufficient collateral?

Mr. LAURIN: He is solvent. Moreover, there is a law against usury in Ontario and Quebec you know.

Mr. MANDZIUK: I am quite satisfied on that point, but not quite satisfied on the other point.

Co-Chairman Senator CROLL: We were diverted. Have you answered Dr. Marcoux's question?

Mr. LAURIN: Yes, I would answer that question by saying that Ontario and Quebec sanctioned an act against usury that caused quite a stir, and the act states that a creditor cannot take the risk he runs into account because the risk is considerable, he has no right to get a higher rate of interest because the risk is considerable and he has no reason to practise usury. I think it is the best way to deal with the matter, that is, if the risk is too great he should not lend—but he must not charge a usurious rate.

Mr. MANDZIUK: I would like to ask the witness, Mr. Chairman, a question. Do you advise your membership in your educational campaign to resort to

caisses populaires or credit unions, as we call them outside of Quebec? Have you any connection with caisses populaires at all?

Mr. LAURIN: We of the C.N.T.U. are totally independent of the credit unions (caisses populaires)—we are completely independent and autonomous. Only the educational department of the C.N.T.U. undertook this educational program. But we must do everything we can to encourage the co-operatives, in view of the fact that, according to our statement of principle we must promote the co-operative movement. We do direct our members to the "caisses populaires" but we do not compete in the banking field; needless to say we do not direct them to the finance companies.

Mr. MANDZIUK: One more point. I think the brief throughout suggests controls, controls and more controls. Is this what you are expecting this committee to recommend, or is it disclosure, so that the consumer will know what he is being charged? Your educational campaign would be most helpful, and I commend you for it. But if this committee recommends disclosure at the percentage rate of interest, plus charge, on a percentagewise basis, is that going to give any gullible man, anyone who is ignorant, a scare that he is going to be charged 400 per cent, as you claim—I don't know whether that is correct or not—but is that going to deter him from going into a buying spree?

Another question. Are you going to prevent by law a man using his credit card, or various credit cards, in a hundred different business places, and thereby getting himself into trouble? Are we by that protecting the consumer, no matter how gullible or foolish; or are we to take an interest in someone who provides credit? Probably that is too big an order, sir, but I think you are quite capable of dealing with it.

Mr. LAURIN: We do not want credit cards to be abolished—we are not asking that they be abolished but we want the rate to be revealed.

For my part I have only read one brief, that of the Chamber of Commerce. But at regular intervals, through the Quebec papers that gave an account of what was said by the people who came here, every Tuesday morning, I followed all the debates—and Senator Vaillancourt told me that we would probably be invited to appear as witnesses.

I noticed that those cases involved financing a car, clothing, electric appliances, furniture, linen, etc. We worked out a form to submit to our friends—if you will allow me to call you by that name. The form, with the help of information we have provided you with, is so easy to calculate that a sales clerk who has only finished Grade 3 or a child in Grade 3 can work out, with a margin of error of less than 1 per cent, exactly how much the consumer would have to pay to borrow or buy something.

Of course, according to our brief these budget plans should be declared illegal because otherwise they are going to stay. But, for the consumer's benefit we want the formula to be clearly printed at a certain place, and in large letters. In view of all the calculations, if the charge is 40 per cent it should be indicated, but the customer should not be led to believe that it is 18 per cent—as is shown in the document which has been distributed.

Moreover, he should sign it in the customer's presence, if he prepares the short form and if the customer also signs he can see how much he is paying and see whether it is 50 or 60 per cent, he will think it over and he will hesitate. We want the consumer to think the matter over before he acts—and those who want to charge 40 per cent, well, let them put it in the form. But in the recommendations, we want the maximum rate to be 9 per cent on a decreasing scale, that is, the rate charged by certain banks at the present time.

Mr. MANDZIUK: Mr. Chairman, there is one comment I would like to make. I would like to tell the witness that the problems of Quebec are not unique.

Right across Canada you have practically the same problems. We are all looking for a solution. I would suggest to the witness that he should take the whole record of reports and the deliberations we have had, the questions and answers we have had, and study them. Because I feel, with all due respect to the witness, that he is presenting only one side of the problem. He would like to see legislation on this and this and this. But in some cases it is impossible to legislate but it is possible to educate.

Co-Chairman Senator CROLL: Mr. Mandziuk, you addressed a question to the Chair a few minutes ago. The practice is that as soon as it is indicated a witness is to come and appear before the committee, we send to him all the proceedings to date. Unfortunately our translations are months behind. We have discussed the matter amongst ourselves, and we have brought as much pressure to bear as we could, but, of course, you being on other committees must realize that it is a difficult problem. We are months behind in our French translations. There is just a shortage of translators.

Mr. CLANCY: I am rather puzzled by this brief just as I have been puzzled by a lot of them. The witness says something about supervised credit—you take over the family and you plan their money and expenditure. Isn't there some place where those of us who have \$90 a week can spend \$90 a week and make do with it and forget about credit? What is credit? We know it is expensive. It should be used for business and not for stoves. I can go down to the market here in Ottawa and pay cash and get discount. What do you want us to do? Do you want us to become a big father to the family and say "You cannot spend more than this" or do you say "We want you to be intelligent people and to spend your money in your own way."

Mr. LAURIN: I think that the whole problem rests, first of all, in the question of adult education. That is the starting point; adult education is necessary, to begin with. However, there should be no question of adopting a paternalistic law.

We know, however, that if people venture on a 200 foot high bridge without a hand-rail, many of them will become dizzy and fall. Thus, a solid hand-rail is necessary to complete a well constructed bridge.

It is exactly the same thing here: the well-built bridge is adult education, but the hand-rails are the laws that will prevent numerous abuses, such as in the case of cars, and such as appear in the files of the Montreal court, where, for example, a truck that had been purchased at \$650 was repossessed one week later and resold for \$25. Thus, such abuses would be forbidden, and the law has to erect hand-rails to prevent such things from happening. Civilized people do not want such dirtiness to happen.

Mr. CLANCY: I agree with the witness that there are abuses. But I also agree, and I hate to say this, but Barnum said it many years ago, "There is a sucker born every minute," and any person who buys a truck to make money and then goes broke, well then he deserves it.

Mr. LAURIN: I should also like to draw your attention to another document I tabled—it has been proved that this exists in the whole country, and not only in Quebec; it is the North-American system. There is the "community finance" for purchases where there is no collateral security. In such cases, a person who buys merchandise for \$970 will have to pay interest of \$400, whereas the normal charge should be \$267. This is what is called "to kill a person's purchasing power". Thus, there is a difference in what happens with these collateral securities; it should be made illegal, so that we have a sound law by which capital would be injected by the billions.

Mr. CLANCY: A supplementary question: would the witness define collateral? Is it your reputation or your name or something that can be worn out and then handed back?

Mr. LAURIN: No, it is not that at all; the collateral security is when a merchant endorses the purchaser's contract with the company that finances it. If the consumer does not pay, the merchant pays off the balance to the "Acceptance" company. When there is no collateral security, if the merchant does not endorse his customer's contract with the "Acceptance" company, the deal is without collateral security.

Mr. CLANCY: You are talking about one type of credit right now.

Co-Chairman Senator CROLL: You had better get yourself organized. You are talking about two different things. Explain to him what you meant.

Mr. LAURIN: It is the conditional sale, as practiced throughout Canada. In the whole country we have the conditional sale, the sale on condition; that is what we are talking about.

Mr. CLANCY: Thank you, Mr. Chairman.

Mr. MACDONALD: Perhaps it might be useful if we could get from the witness some of his observations on the educational programs that they have been carrying out. As I understand it, the union has had an educational program for the past two years, and I believe he has been a director of it. Is that understanding correct, and that these documents you have distributed are the ones in common use for instructing your membership on the best means of planning their finances?

Mr. LAURIN: Yes, but the paper we submit is the one that follows our ten-course volume. We give a series of ten courses, in the first course we explain all aspects of money-lending. In short, the 6% loan is the one offered by the co-operatives. There is a loan where the interest rate varies between 6 and 12%, and that is the bank loan. There is another where the rate varies between 6 and 24%, and that is the finance company loan; the "Acceptance" company loan varies between 18 and 60%. The second lesson is about merchandise. The third is about the peddler. In the fourth lesson we teach everything that has to be done before signing a contract. The signature is a very serious matter and it should not be given at random. If you sign a contract, it means that you have to spend money. Our fifth lesson is specifically for the Province of Quebec, where there is the Lacombe Act, which does not exist elsewhere in Canada. There may be something similar in Ontario. In the sixth and seventh lessons, we only talk about the budget and we examine the debts. We have a budgetary system which allows us to advise the families and to make a progressive study. We put them on the way to get rid of their debts, we succeed in reconstituting their budget and then they can reduce their debts because we advise them. We give them new purchasing power. The eighth lesson deals with co-operatives, savings, credit, i.e. the "caisses populaires" which, in English, are called "Credit Unions". The ninth lesson deals with all aspects of social security, the tenth with the moral aspect of consumer credit. This is what we teach.

I thought I should bring this to your attention. By the way, one of the recommendations of our brief is that, when banks or credit unions grant a financial margin, or any credit, it must be established whether the family is able to repay. It seems important for a family with a \$50 weekly income, and with three finance company loans of \$1,000 each, it should first be established whether they are able to repay, above all when a family has a \$20 potential, i.e. a \$400 credit and not a \$3,000 credit as it is being done now. The law should make provision for this, and not necessarily according to this paper. A balance-sheet should be set up which establishes the repaying power, and on this basis a ceiling should be put on credit.

You will probably say that people will falsify their balance-sheet; they will not reveal all their debts or the real amount of their rent. But don't be mistaken, section 304 of the criminal code is very explicit on that point; any

person in Canada who takes a loan exceeding \$50 after falsifying his balance-sheet is liable, not to a fine, but to two to ten years imprisonment. Now, since we have loans which are permitted according to the Small Loans Act, it says clearly in this Act that the interest on the first \$300 is 2%, on the following \$700 it is 1%, and for the last \$500, $\frac{1}{2}$ of 1%; furthermore, the law stipulates clearly that a balance-sheet has to be submitted and that those who falsify their balance-sheet are subject to section 304 of the criminal code.

It is measures of this nature that we want, so that credit may be effective, rather than have a person with a \$60 a week income take loans of \$1,000 each from 8 different companies. This is nonsense and it shows how ridiculous the present system is. We want it to be abolished.

Mr. MANDZIUK: Before Mr. Macdonald continues I should like to ask a supplementary question. What is the membership of this organization? How many people does your course reach annually?

Mr. LAURIN: Last year was, so to speak, our first year in the Province of Quebec, although we really began three years ago; the first year we did nothing but research. During the second year we organized teams of lectures. I am at present controlling some 700 lecturers. We have a little over 50,000 persons who followed C.N.T.U. courses in our province, and then there is the influence of the home on its surroundings.

Mr. MANDZIUK: Do you charge for your course?

Mr. LAURIN: It is entirely free.

Mr. MANDZIUK: Who finances your organization?

Mr. LAURIN: The C.N.T.U. only.

Mr. MANDZIUK: Are you a trade union in the full sense of the term, namely, an organization of labour or a certain trade?

Mr. LAURIN: We are, in the real sense of the word, an authentic labour organization. I think we are the only labour organization on the North-American continent, including the United States, that has a genuine adult education service. We are the only ones to have it, you know that it is public because our last convention revealed it to the reporters, the adult education budget is about \$160,000 for two years. As I said, we have received requests from Toronto which we will carry out, and if we received requests from Winnipeg, I hope we would examine them too.

Mr. MANDZIUK: Thank you. I apologize to Mr. Macdonald.

Co-Chairman Senator CROLL: Mr. Laurin, may I ask you to shorten your answers a bit. You are repeating a great deal of information, some of which you gave earlier. There are many members here who wish to ask you questions.

Mr. CLANCY: Do you think the people in Saskatchewan are any different from the people in Quebec?

Mr. LAURIN: No, not at all, there is no difference.

Co-Chairman Mr. GREENE: Yes, they are Tories.

Mr. CLANCY: I would be rather surprised to know that the Quebec people are different from myself. We all have the same feelings.

Mr. MACDONALD: From the answer that Mr. Laurin gave to Mr. Mandziuk I am given to understand that the plan has not been in actual operation long enough for us to have any "before and after" figures which would indicate the number of people who were getting into financial difficulty before and the extent to which this number has either decreased or increased as a result of the educational program. You have not any way of gauging the success of it so far, have you?

Mr. LAURIN: Well, I told you quite clearly that our organization started three years ago. The first year it was strictly on an experimental basis. We had

400 families who observed our system and with whom we could make experiments. Today, about 90% of these families have turned out to be a complete success, according to a thesis which is presently being elaborated at Laval University. The majority had debts of between \$2,000 and \$16,000, and today everything is balanced, and there is already a number of small wage earners with a \$75 to \$80 weekly income who, I think, after three years' experience, are able to manage. This is a clear and certainly splendid proof.

Mr. MACDONALD: One of the issues that has been before us in this committee is whether disclosure in dollar terms—that is, how much of a monthly payment you will have to make—is not adequate; that you should have disclosure not only of the monthly payment but of the rate of interest per annum. It appears to me that your budget is drawn on the assumption that the monthly dollar payment rather than the interest is the only meaningful criterion. I notice that under section IV you have “Votre paiement mensuel”. There is no reference to percentage interest anywhere in that budget.

Mr. LAURIN: No, according to the paper itself, there is no question of percentage because we are dealing with the present family situation: but we want at any cost that the percentage be disclosed at the moment of the loan. We have shown you, according to other formulae, tables of rates which we can apply, and the suggested formula is $25f$ over m multiplied by $e+p$. If you accept a 1% margin of error in fixing a rate, we can tell you that our calculations are 100% accurate, with a 1% margin of error.

Mr. MACDONALD: May I ask a final question, Mr. Chairman? Have you recommended to your membership that they go around and ask the various department stores or other credit issuers for a fuller disclosure? If you have asked that, what has been the general experience of these people?

Mr. LAURIN: The results surprised us very much. I know that today, when people borrow money or buy on credit, they ask a lot of questions, especially those who followed our courses. You know I want to be brief, but I could perhaps give you the example of the municipality of Asbestos where the car financing rate dropped from 9% to 6%, because our education was very effective in that area and the companies had to lower their rates because they didn't find any customers because people went to the cooperative instead of the “Acceptance” company. I think this is the best proof we have of the effectiveness of our work and that people do exactly what we taught them.

Mr. MACDONALD: So, your experience has been that where the customer actually does ask for this information the credit issuers have found it possible to indicate what the rate is; they have taken some steps to make this information available?

Mr. LAURIN: Yes, because we have so far distributed about 30,000 copies of this paper to our members. Moreover, at present we print about 10 to 12,000 such papers every month. In a short time, some 150,000 members of our Confederation will have it. We have reason to believe that the credit unions will buy one million of them in a few weeks' time, for distribution throughout the Province of Quebec. With such a weapon, when you ask for financing at a store, you know exactly what you do, and if it is too expensive, you say: my friend, I feel that your rate is too high and I don't buy!

Mr. OTTO: I was about to ask the witness the same question that Mr. Macdonald asked. However, now that I have the floor, I wish to correct an impression which I might have made, that I do not or that this committee does not welcome new ideas put forward by any of the witnesses. In your particular brief you have presented the case much deeper and further than the obvious ills of credit purchasing. I disagree with the result you reach and I disagree heartily with your proposal of enforcing limitation on credit. How-

ever, I wish to correct the impression that this committee does not welcome any ideas which put forward a different aspect. We do welcome all such ideas. In your case, you have shown concern about the whole economic results of credit purchasing. My original question—and I do not think you can answer it more than you have done—is: What has been the result of your education policy? From your experience so far, do you think you have evidence from some people that your educational policy will succeed?

Mr. LAURIN: During the current season, i.e. in summer, obviously not all our teams are at work. We start again at the beginning of October, and already at this moment, after the first two months, we have reached the same level as we did last year in five months. Our courses will again be intensified this year and, at the present experimental stage, we have three areas in the Province of Quebec where we founded a co-operative finance committee, and we asked all intermediary pressure groups and whole municipal corporations to convey these ideas to all of their groups, i.e. at Sherbrooke, Shawinigan and Alma; we have been very successful since September. But we will be able to say in about two or three years whether it is really a success and whether the formula will endure.

Co-Chairman Senator CROLL: Mr. Laurin, do you also buy time on radio for the purpose of speaking to the people about this problem?

Mr. LAURIN: Yes, I had a radio programme with the CBC, from Halifax to Vancouver, on the complete CBC French network; there were 17 broadcasts and some 15 telecasts in the Saguenay-Lac Saint-Jean area, as well as five telecasts on the CBC French TV network.

Mr. L'HEUREUX: With regard to the budget plan, you suggest that it be completely abolished?

Mr. LAURIN: Yes sir.

Mr. L'HEUREUX: As the system already exists throughout the country, do you think it is possible to determine the real cost to the consumer?

Mr. LAURIN: Yes, the budget plan is a better formula to begin with; if you don't tell the truth at the beginning, it doesn't work. Moreover, the wife doesn't have to ask for her husband's signature because there is no contract to sign. The families that have accumulated debts of 2 or 3,000 dollars are not able to repay. Supposing we are in August, people have to buy clothes for the children who go back to school and because winter is approaching; these clothes will be bought on the conditional sales plan. What will be exactly the cost with this plan?

Mr. L'HEUREUX: Do you suggest a conditional sale every month?

Mr. LAURIN: Every month—but that doesn't happen every month; we can buy clothes twice a year; we know that conditional sales are refinanced every six months since they began some 25 years ago.

Mr. L'HEUREUX: I think you said that there are companies today who have a 1½% charge and set the interest rate at 18%; can you tell us about actual cases where this happened?

Mr. LAURIN: With the budget plan, in all cases, it is 1.5% at month end, not on the credit carried during the month.

Mr. L'HEUREUX: Is that interest or charge?

Mr. LAURIN: With certain firms it is called charges, with others it's interest, and others again call it administrative expenses; in reality it is a matter of hidden costs.

Mr. L'HEUREUX: Something else—you said that risk had nothing to do with setting the interest rate. Don't you think that he who takes risks in lending money has a right to a higher interest rate?

Mr. LAURIN: When it is a really bad risk, the customer has already exhausted his credit, he has too many debts already; why then overburden him even more and drive him to personal bankruptcy, because, you know, these personal bankruptcies are increasingly frequent and they have to be avoided.

Mr. L'HEUREUX: You say you don't believe in competition as a yardstick for the interest rate; you insist that the law should set a maximum rate. Do you have any special reasons for that?

Mr. LAURIN: If the cost is fixed according to the formula we suggest here, we believe in competition. However, if no identical formula is worked out, which would be signed by both the consumer and the creditor, it is obvious that competition is completely annulled.

Mr. L'HEUREUX: Don't you think that a formula is a way of making sure that the law is being complied with and that in no case, except if it is a 100% precise formula, should it be incorporated in the law?

Mr. LAURIN: It is accurate to 1%. If for example you have fractions, and instead of 99.8 it is 99.7, you will say it is illegal because of this one-tenth of a point; supposing, however, that we can admit a 1% error.

Mr. L'HEUREUX: Don't you think that, if the law said it was compulsory to declare the interest rate, it would suffice to have it written in the books?

Mr. LAURIN: Yes, but we see that that is the sanction of the interest rate; we do not believe in competition when it brings in absolutely nothing but a portion of the cost of the loan. It is like the merchant who says: My rate is 40% on refinancing; therefore, if it is 40% on refinancing, I'll absorb the cost of my machines, I'll add 10% and I'll recover the same amount. So, I do not believe in competition.

The CHAIRMAN: Are there any more questions, gentlemen?

The Co-CHAIRMAN, Mr. GREENE: I wish to thank you, Sir, in the name of the committee, for bringing us your message. It will help us considerably. You have given us new ideas, unique ideas for the committee, and I know now that your ideas have given us food for thought and that we shall certainly remember your evidence when we prepare our report.

We thank you and your colleagues.

Mr. LAURIN: Thank you.

Co-Chairman Senator CROLL: Honourable members, Caisse Populaire will be here in this room at 10 o'clock on Tuesday next.

The committee adjourned.

APPENDIX "O"

BRIEF

From the Confederation of National Trade Unions to the Joint Committee
of the Senate and House of Commons on Consumer Credit

Tuesday, December 8, 1964.

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INTRODUCTION

Usurers benefit by the law:

It would be easy and convenient not to change anything pertaining to the present situation and to say to those who are opposed to credit buying that they do not have to use it. Usurers benefit from inadequate laws by widespread publicity that gives at the start, misleading ideas of the cost of credit and by contract forms where everything is used to mystify the borrower regarding the actual liability he assumes. Everyone takes advantage of the poor people as well as their temporary and accidental difficulties, including the normal desire to obtain the minimum that the economic system refuses to so many.

Family Budget Service:

Facing a situation that is inconceivable to the extent that one often refuses to accept the evidence, the C.N.T.U. has created a specialized service which is offered to our members and to the population in general. At the beginning, the service has interested thousands of labourers, showing by that fact the seriousness and reality of the problem in every region of Quebec.

A campaign has been organized with a view to unmask the usurers on one hand and, on the other hand, to bring about a better way of administering the family budget.

However, the efficiency of our action will be handicapped as long as these abuses are allowed by law. It is disturbing to realize that some people are being taken advantage of with the tolerance and even the protection of the law.

Availability of credit without protecting the usurers:

The more the available revenue is low and irregular, the more the workingman will be obliged to use credit. Obviously, if the revenue is low, "using credit for buying becomes detrimental to the stabilization of the needs", (1) hence the importance of giving the maximum protection to the consumer. The investigation already referred to deals with the living conditions, needs and aspirations of wage-earning French Canadian families, and realizes that even if 78% of the family heads covered by the investigation have admitted having had to use credit, the majority, i.e. 72% condemn the practice. The wage-earner borrows money because he is obliged to by circumstances.

This investigation also shows that the reimbursement of the money borrowed by the families represents annually about 12% of their total annual expenses. Consequently, the average budget of the wage-earners not being sufficient in most cases, it is important that credit be available to those who need it, without favouring the usurers.

DISCLOSURE OF THE RATES AND THE ACTUAL COST OF CREDIT

On four occasions, Senator Croll presented a Bill that would have obliged the merchants and the acceptance companies to divulge on each contract the real cost of the loan.

Powerful organizations have declared before the Joint Committee on Consumer Credit that it is impossible to disclose the rates of interest. This pretension is fallacious. We think it would be possible to find a system that would

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cover 99% of the possible cases. For instance, the following formula could be adopted:

- (a) For every contract relating to monetary borrowing or to the financing of consumer goods, a form will have to be completed by the creditor in presence of the debtor. Without such a form, all contracts will be void. The creditor shall, by means of an official method of calculation, indicate the real cost of the credit.

24 f

Proposed formula: $\frac{24 f}{m (e + p)}$ = rate of interest for the period

e = Amount of the borrowing (monetary or total amount of the financed purchase);

p = Monthly payment;

f = Cost of loan (including cost of refinancing, administration, interest, etc.);

m = Number of monthly payments indicated on the contract.

The real rate of interest I shall pay =

Real cost of the borrowing =

Signature of the creditor: _____

Signature of the debtor: _____

Such a formula would permit the consumer to know the real cost of credit before signing the contract.

- (b) There should also be included a chart showing the valuation of the rates which would be completed by the creditor in presence of the debtor.

Disadvantages deriving from the disclosure of interest rates:

First of all, the consumer is facing a danger; the merchant could be tempted to include part of the cost of financing into the sale price of the purchase.

No doubt, one could object that the competition will limit the effects of such practices.

However, we are convinced that competition, on the level of "private enterprise", is very limited.

Reorganize consumer credit hand-in-hand with requirements as well as with the purchasing power of the consumers:

Consumer credit must be reorganized hand-in-hand with the requirements and purchasing power of the consumers and its consequences upon the economy of the country.

The merchants have become usurers and they try by all means, with the cooperation of the finance companies, to realize additional profits beyond the sale profit.

METHODS OF BUYING ON CREDIT

Four principal methods of financing are in use:

(1) *The permanent budgetary plan*

This plan really calls for a rate of interest that varies from 18 to 54% interest, with average of 30 to 40%. It reduces considerably the purchasing power of the consumer giving him at the same time the impression that this method of buying on credit costs very little.

Generally speaking, it is believed that the rate of interest is 18%. This is wrong.

Ex.: Loan Society:

If, on January 30th, the consumer borrows 500, the interest will amount to \$8.00 on February 29 next, i.e. \$8.00 for 30 days.

If under the budgetary plan one borrows \$500, on January 31st, \$7.50 interest will have to be paid for only one day, that is to say 547% of real interest.

This way, the rate of interest may vary the following way—According as one borrows or uses the budgetary plan:

Bank	= \$2.50 to \$5.00
Caisse Populaire	= \$2.50
Finance	= Interest charged for one complete month: Feb. 28, \$500 will cost for 30 days: \$8.00 or 20%
Budgetary Plan	= Interest charged on balance of the last day \$500 will cost \$7.50 for one day or 547%

From this chart, you may see that the real rate of interest of your budgetary plan will depend on the date you have made your purchase, since 1.5% interest will be charged on the amount you will owe the last day of each month.

Let us come back to our example of \$500 and let us suppose that five different customers buy for the same amount from the beginning to the end of the month. We will then obtain as a result the following rates.

	Jan. 1	Jan. 5	Jan. 15	Jan. 20	Jan. 30
Purchase	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00
Interest	7.50	7.50	7.50	7.50	7.50
%	18	22	36	66	547

No matter what day of the month the purchase is made, the interest will always be the same. So the permanent budgetary plan is usurious because the monthly interest varies around 18% to 547%.

The legislators should declare this method illegal on credit buying. The merchants encourage buying at the end of month by offering articles at reduced prices.

The average rate of interest of the budgetary plan is about 40% and not 18% according to what certain merchants say.

Publicity is conceived in such a way that it encourages the housekeeper to buy the "specials" at the end of the month. The result of the operation is as follows:

First month

Date: 29 and 30

A purchase of \$500. with an immediate charge of \$7.50 interest, the first payment of \$50.00 being due on the first of the month.

Second month

New purchase

Balance of \$4.50. bearing real interest of 18% of \$80.00

.....

Mixed with a purchase at the end of the month at X%

Result: Every month there is a mixture of two balances.

Balance at 18% Average rate at X% Monthly purchase at X%

The Assistant Director of the Credit Department of a Company as important as Simpson-Sears has already declared that the Company rejected the "budgetary plan". Here is a quotation from Senator Croll's speech (Refer to Hansard, November 1, 1962):

"I complained about this some time ago to the Credit Department of Simpson-Sears. The assistant credit manager assured me that they did not do this and agreed that it would be dishonest. I explained that they did and was referred to the credit manager. He said that it was store policy across Canada and that he could do nothing about it. I know personally of several people who closed their charge accounts there when they realized that they were being overcharged. Since that time the Hudson's Bay Company has instituted this policy also, and just recently the T. Eaton Company has followed suit."

Plan of purchase by Instalments:

The plan of purchase by instalments contains "refinancings" which increase considerably the rate of interest.

In this manner, an amount of \$1,000. "refinanced" every six months will cost \$100. interest for six months even if the contract indicates "\$45.00".

Plan of Conditional Sale:

This method of buying on credit is related to the "plan by instalments". There are two characteristics distinctions to be made:

- (a) The creditor remains owner of the sold articles until the total reimbursement of the balance is made. Everyone knows what flagrant abuses are derived from this practice. The interests are either 0.75% per month, or 1% per month.
- (b) The 0.75% charged is when the Finance Company holds a collateral guarantee on the contract made by the merchant.
- (c) The rate of 1% is normally the rate of the merchants who finance their accounts themselves. This is not at all an established rule. We draw your attention to a contract from a firm with a rate of interest of 55%.

If there is a "collateral guarantee" the rate of interest is 18%, otherwise the rate of interest reaches 27%. Since the consumer ignores whether or not there is a collateral guarantee, he may be the victim of the fantasy of those who do the financing and take advantage of him.

If there is "no collateral guarantee", the interest will rise rapidly. Here is another example of a loan company where the cost of a loan would not have exceeded \$267. for a financed amount of \$970. However, the cost is \$400., i.e. about 27%. The manager of the company said that this was a regular rate.

Motor Vehicle Purchase Plan:

This credit purchase plan is the one which opens the door to the most unconscionable abuses. Generally speaking, three different interest rates are applicable according to the type of vehicle or customer involved:

1. New Vehicle;
2. Used Vehicle;
3. Customers known as "bad risks".

On the other hand, if the consumer wishes to reimburse the full amount of his debt before the date of payment, a penalty by way of "administrative costs", equivalent to a hidden interest rate, is imposed.

We possess a contract form whereby an apparent interest rate of 15.4% actually becomes an interest rate of almost 34%.

Since the debtor remains liable for the final balance even after repossession and repair costs of the car, the charge is often greater than the value of the vehicle. In default of payment, the debtor remains liable for the repairs to be made by the garage, the balance of his account and the contract of the second purchaser. Section 6 of the contract form used by a Finance Company is hereafter set out, as well as a quotation taken from legal reports of the Province of Quebec, Nos. 1 and 2, 1962.

Sect. 6.

"Should the vendor take back possession of the said goods either through recovery or because the purchaser has returned the same voluntarily or otherwise, the vendor may as he wishes keep the said goods and, in such case, all prior payments shall remain in the absolute ownership of the vendor and be considered not as a penalty but as liquid damages; or the vendor may store the same goods, repair, recondition and sell them again in such manner, at such price and under such conditions as the vendor may deem reasonable; upon such a sale being made, the vendor may accept, as part of the purchase price, other goods, but the undersigned purchaser shall be entitled to have the net proceeds thereof credited to him only when the amount has been realized and collected in cash following the sale of the article given in exchange, after deduction has been made for all the expenses, costs and commissions in respect of the said goods and in relation to the repairs and the resale of the exchanged article. The purchaser shall be responsible for all deficits. Any surplus shall be remitted to the purchaser. The purchaser waives all claims for damages resulting from the taking back, removal or resale of the said goods."

The Court's comment speaks by itself. "Though this is a harsh and exorbitant common law clause, which is unfair and abusive, it is neither illegal nor contrary to public order."

With respect to the automobile business, scandals are of such a magnitude that it is inconceivable that our legislators still fail to see our point. Here is another document which shows:

(1) *Garage Contract:*

Purchased car	\$1,150.00
Exchange allowed	700.00
	<hr/>
Balance	\$ 450.00

(2) Second contract with one of the larger finance companies in the automotive field.

Cash sale price	\$1,450.00
Exchange allowed	600.00
	<hr/>
Balance	\$ 850.00
Finance (24 mos.)	254.00
	<hr/>
Total	\$1,104.00

The buyer owes \$1,104.00 for a purchase which, according to the garage contract was estimated at \$450.00.

In our opinion, every possible means is used to rob the consumer.

RECOMMENDATIONS

1. Taking into account the abuses that remain, the existence of usurious rates of interest, the pretensions of the finance and other loans companies, the importance of credit buying, the affect of credit buying on the purchasing power and standard of living of the consumer and in view of the economic importance of this question; we recommend the institution of an investigative commission with respect to rates of interest on consumer credit, within the limits of federal jurisdiction.

2. That until the conclusion of such an investigation, the rate of interest be arbitrarily set at 0.75% per month (9% per annum) on the unpaid balance, not on the basis of the duration of the loan.

The finance companies pretend that such a rate of interest would lead them to bankruptcy.

But we know that the "caisses populaires" and other lending institutions carry on and expand their business on rates of 6%, 7% and 8% per annum.

Moreover, losses due to default, represent a very low percentage in relation to small loans; for example:

Finance companies borrow at a low rate of interest and lend this same money at exorbitant rates.

The consumer pays dearly for the multiplication of middlemen and agencies whose competition for his business is charged indirectly back to him.

The companies are needlessly vocal about the risks which they take. They are privileged by a legal system which enables them to make full use of the law, and to benefit thereby.

The average consumer knows little about the law and in many cases cannot afford a lawyer. However, should a lawyer be retained, he finds that the consumer is already bound by his signature on a contract prepared by experts who grant all rights and privileges to the loan company.

The experience of our family budget system shows that the average consumer, particularly the low salaried one, has no means of defence against the present social system.

The legislators should put themselves in the place of the low-salaried citizen who is always threatened with the loss of his job while he or some of his family may be ill or injured.

Living in a society where privileged persons have everything, he is always tempted to buy more than he can afford.

When he finally decides, after having lived many years in deprivation, to give his family what they need, he has to deal with merchants who present him with contracts prepared by lawyers and loan experts who always act in such a way that the consumer does not realize exactly what liabilities he is assuming. We are then convinced that the society should adopt a system in accordance to the needs of the consumer. The system should first protect the consumer against the abuses resulting from the power of the financiers.

3. Banks, finance companies and loan or savings co-operatives should raise, for the benefit of thrifty people, the ceiling imposed on their credit in accordance with their ability to repay.

This ability to reimburse could be determined from analysis of the borrowers' income and liabilities. Cash purchasing and better family budget control would thus be fostered.

4. The interest rate on the balance as at the end of each month, the hidden refinancing charges and car reconditioning charges should be abolished.

5. The cost of a loan should be clearly shown on any contract.

6. The *Small Loans Act* should apply on loans up to \$5,000.00. As it now stands, the Act provides for the following interest rates:

\$ 300.00 loans—24%
 \$1,000.00 loans—20%
 \$1,500.00 loans—16%

Now, a \$1,500.00 loan is repaid in 30 instalments of \$60.00=\$1,800.00, which represents a cost of \$300.00.

On the other hand, we know that loans of \$1,500.00 and over do not come under this Act.

It is difficult to get a loan of more than \$1,000.00 and less than \$1,500.00, but a loan of \$1,501.00 or more is much easier to obtain. The reason being the following:

A \$1,503.00 loan is repaid in 30 instalments of \$65.00 each, that is \$1,950.00.

As a result, a \$1,500.00 loan will cost \$300.00
 but a \$1,503.00 loan will cost \$450.00
 so that a \$ 3.00 loan will cost \$147.00

Many lenders on second mortgages (i.e. debt consolidation) advertise mainly loans over \$1,500.00. Here is a document under which the average interest rate varies from 38% to 45%.

Actual amount loaned	\$2,326.05
Cost of loan for 7 years	\$3,201.15
Total repayment	\$5,527.20

The *Small Loans Act* should be amended as follows:

- (a) A maximum legal interest rate of 9% on small loans up to \$5,000.00
- (b) A single decreasing interest rate not exceeding 9% per annum.

7. That the "budget plan" be declared illegal and replaced by an amended instalment plan.

8. That with respect to credit sales outside the permanent place of business (door to door etc. . . .), the consumer may have the privilege, during a seven day period, of forwarding a notice of termination of the contract by registered mail. Any cash payment made would be reimbursed in full and no charge or compensation could be claimed by the vendor, the company, or any sales organization operating on its behalf.

The United Kingdom has already enacted a law to protect the consumer against door to door sales which are practised by means of various refined techniques which are called in American publicity slang "high pressure selling".

9. That the transfer of property rights shall be made to the purchaser at the time of sale, or, alternatively when he shall have paid a certain percentage of the purchase price.

CONCLUSION

The present system of consumer credit is harmful. On considering the abuses practised in this field, one is inclined to recommend the abolition of a system which is so deeply rooted in the morals of the North American continent.

However, we believe that before recommending such a radical change, it appears hopeful that the legislators will finally adopt means that will eliminate these abuses and give the consumer more protection.

Too often the consumer does not realize the liabilities he is assuming when he signs a contract for a purchase on credit. Vendors and loan institutions

frequently hide the nature of the liabilities assumed when a contract is signed. These are the practices that enslave the consumer and at the same time reduce his already limited purchasing power.

These are the reasons that we especially recommend, very strongly, that the vendor be obliged to clearly indicate in a sales contract the cost of the product, the difference between the cash price and the price when an article is bought on the instalment plan, as well as the rate and the cost of interest.

In this way the purchaser will be in a position to evaluate the real cost of the purchase and will enable him to ascertain whether or not he is entering into a wise and sensible transaction.

We also strongly recommend that Clause 6 of the I.A.C. type of contract be declared illegal.

This measure would oblige the vendor to be more careful in checking the ability of the purchaser to repay any obligation he assumes.

To increase the widespread use of the instalment plan without strict regulation, especially in the case of the transfer of property rights, would not be in the interest of the consumer.

Credit buying creates the illusion that the majority can readily obtain goods they cannot acquire otherwise under the present economic system. But this is only camouflage. In addition to buying new or used merchandise at a high price the consumer also has to pay usurious interest rates.

In considering the low salary earned by a large proportion of the population, this system of retailing reduces purchasing power and endangers the already precarious standard of living of far too many consumers.

In conclusion, the Confederation of National Trade Unions principally recommends the following:

1. The appointment of a commission to investigate interest rates, particularly with regard to the influence of such rates with respect to the purchasing power and living standards of the consumers.
2. That, in the interim, the rate of interest be set at a maximum of 9% per annum, on a decreasing basis.
3. That adequate measures be provided to enforce the revelation of interest rates, real cost and administrative costs of loans and credit purchases.

APPENDIX "I"

THE CONFEDERATION

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accepts as members workers from all regions, industries, and services.

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- etc., etc., etc.

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TRADE UNIONS

C.N.T.U.

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- Are you being prosecuted by your creditors?
- Do you wish to keep a family budget?
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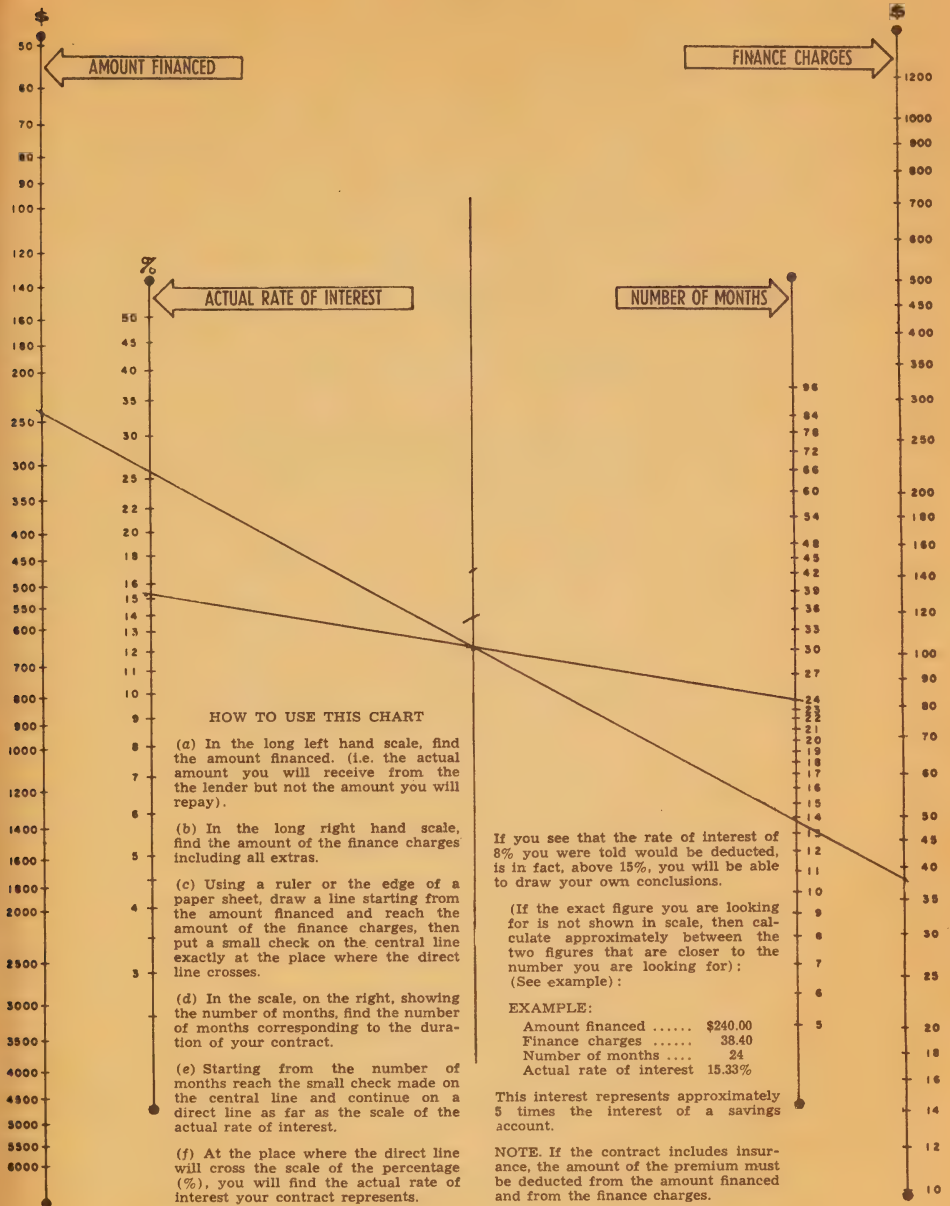
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2. Sales on the Instalment Plan
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5. Voluntary Deposits
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8. Social Security
9. Credit Unions.
10. Moral Aspect of the Problems Caused by Consumer Credit

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FAMILY BUDGET SERVICE OF THE C.N.T.U.
155 East, Charest Blvd., Quebec

CHART FOR DETERMINING ACTUAL RATE OF INTEREST





13
Second Session—Twenty-sixth Parliament

FEB 11 1965 1964

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 13

TUESDAY, DECEMBER 15, 1964

JOINT CHAIRMEN

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

WITNESSES:

La Fédération des Caisses Populaires Desjardins: Mr. Émile Girardin,
President; Mr. Paul-Émile Charron, Assistant Director General

APPENDIX

P—Brief from La Fédération des Caisses Populaires Desjardins

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Robertson (*Kenora-Rainy
River*)

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—12.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have powers to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof.”

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills has been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

House of Commons

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act (Advertising).

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, December 15th, 1964.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Gershaw, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh and Vaillancourt, and *House of Commons:* Messrs. Bell, Chrétien, Irvine, Macdonald, Marcoux, Nasserden, Otto and Scott—14.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On motion of Mr. Nasserden, it was Resolved to print the brief submitted by La Fédération des Caisses Populaires Desjardins as appendix P to these proceedings.

The following witnesses were heard: *La Fédération des Caisses Populaires Desjardins:* Mr. Émile Girardin, President; Mr. Paul-Émile Charron, Assistant Director General.

At 11.55 a.m. the Committee adjourned to the call of the Chairman.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, December 15, 1964.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator DAVID A. CROLL (*Co-Chairman*) in the Chair.

Co-Chairman Senator CROLL: Gentlemen, we have a quorum, and I will call the meeting to order. We have with us today the Federation of Quebec of "Les Caisses Populaires Desjardins."

I will ask for a motion to have the brief printed.

A motion was adopted that the brief prepared by the Federation of Quebec of "Les Caisses Populaires Desjardins" be printed in the report of the proceedings.

(*See appendix P*).

Co-Chairman Senator CROLL: This morning we have with us, on my right, a member of our committee, Senator Vaillancourt, Director General; Mr. Paul-Émile Charron, Assistant Director General; and Mr. Émile Girardin, President of the Federation of Quebec of the "Les Caisses Populaires Desjardins."

Mr. Greene, my Co-Chairman, telephoned me to say that he will arrive later—the storm delayed him.

We have had some difficulty with the brief to be discussed today. These are normal difficulties in translation services and as the translators were busy working on last week's brief and proceedings, they were not able to complete preparation of the present brief. We are lacking the recommendations and therefore I will ask Mr. Charron to read them. He will read slowly, and then give you a résumé of the brief which you have in front of you. After that we will have questions.

First of all, Mr. Girardin would like to say a few words.

Mr. ÉMILE GIRARDIN: Mr. Chairman, as President of the Quebec Federation of the Regional Unions of *Les Caisses populaires Desjardins*, I would like to thank you for having invited us to appear before this Special Joint Committee of the Senate and the House of Commons, in order to study consumer credit.

If you will bear with me, Mr. Chairman, I would like to take a few minutes of your time to create a climate, an atmosphere around the *Caisses populaires Desjardins* which were founded in Lévis, in 1900, by Mr. Alphonse Desjardins. If they were founded in Quebec, at Lévis, one can say that their inspiration came from Ottawa where Mr. Desjardins studied for a long time and absorbed principles of cooperation in the course of meetings and from books which he consulted at the Parliamentary Library. This credit union founded in 1900, had already developed, at the time of Mr. Desjardins' death in 1920, into 102 credit unions with total assets of \$6,000,000.

Mr. OTTO: Mr. Chairman, on a point of order. I am sure we are all interested to read the brief of *caisse populaire*, but with all respect I do not think it has anything to do with our committee. We have had an appendix giving their history, which we will read. With respect, I think you should bring the witness to the point of issue before the committee, which is consumer credit.

Co-Chairman Senator CROLL: Mr. Otto, Mr. Girardin is the President. As a matter of courtesy, he is saying just a few words for a few minutes to introduce the matter to those of us who are perhaps not aware of the history of the organization.

Mr. GIRARDIN: Mr. Chairman, in closing may I say that Mr. Desjardins founded his credit unions to help those, among others, who were in the hands of usurers and who were trying to find easy credit to meet their requirements, those who were temporarily in financial difficulties. In this way, I believe that they filled some of the needs of those who required consumer credit. This is all I wanted to add.

Co-Chairman Senator CROLL: Mr. Charron; you may sit down if you so wish.

Mr. PAUL-ÉMILE CHARRON: Mr. Chairman, before making the recommendations resulting from this brief, it might be wise—for the better understanding of the text you have in hand—that I give you an idea of its different parts.

The first part deals with consumer credit in Canada, taken as a whole, or from the point of view of the Canadian economy.

The second part deals with consumer credit from the point of view of the family or the individual, and starts on page 28 of the brief. Moreover, you will find, as an Appendix to the brief, a section dealing with what the credit unions have done to protect their members against excessive interest rates and how they have helped them in the rational, wise and productive use of credit.

As for the recommendations, they are as follows:

I—Consumer credit outstanding in Canada has passed from half a billion dollars to more than five billion dollars since the end of the war. Such an amount of debts is heavy, not to say excessive, in our present Canadian economy.

II—Many are the Canadian consumers who have made an abusive use of credit and who are presently facing serious financial difficulties.

III—Consumer credit is expensive; interests and other charges are too often usurious. There are considerable abuses in this area.

A legislation is mandatory:

- (a) to determine a reasonable limit to the cost of consumer credit and to eliminate usury;
- (b) to oblige creditors or lenders and merchants to reveal the real cost of credit in terms of simple annual interest rate—the only basis of comparability—expressed in percentage form, so that the consumers may compare the costs of loans and credit terms offered and know the obligation they undertake;
- (c) to force creditors or lenders and retailers to tell the truth as to rates of charges when they advertise;
- (d) to foresee the cancellation of those contracts which are not complying with this legislation;
- (e) to oblige the lenders of money who presently come under the jurisdiction of the Small Loans Act to report to the Federal Superintendent of Insurance on all their loans not exceeding five thousand dollars (\$5,000);

- (f) to oblige consumer goods retailers to demand from the consumer a money down payment equal to 20 per cent of the regular price of the merchandise offered, at the time of purchase, and to prevent them from charging interests and other finance costs exceeding 1 per cent per month or 12 per cent per year, and to establish interests and other financial charges on the unpaid balance of credit according to the simple annual interest method.

(Translation)

Mr. CHRÉTIEN: Mr. Chairman, first, on behalf of this Committee, I would like to congratulate the credit unions on the magnificent brief which they have prepared. Frankly, we have seen many briefs, we have heard many persons before this Committee and, personally, I find this to be one of the best prepared briefs and one which really gives a good idea of the problem. However, there is one thing which interests this Committee particularly, which is, that in the brief, and I, myself, know this, it is mentioned that there is in the province of Quebec, at the present time, a law concerning interest, more particularly a law concerning consumer credit. Could you, for the benefit of the Committee, describe how this law of the province of Quebec functions?

Mr. CHARRON: Well, I am not a legal expert so I cannot give you a complete description but, referring to your question which is concerned with the rate of interest, I must say that the question of interest rates is not related to the jurisdiction of the province. When the law governing credit buying was adopted in the province of Quebec in 1947, I think, I can say that the text of the law, inserted in the Civil Code after its adoption, specified that salesmen, selling on time, merchants, for instance, selling goods on credit, under the guise of selling on time, which supposes or requires the parcelling out on a monthly basis, of equal monthly payments; were authorized to charge $\frac{3}{4}$ of 1 per cent per month, which included interest and other charges on the amount to be paid. It was considered that this addition of $\frac{3}{4}$ of 1 per cent was not interest but a charge to be added, if you will, to the price of the merchandise, after deducting from it, of course, the down payment, which could be made in money or in merchandise; this extra is added as a charge; it is considered a compensatory charge.

If you refer to the Civil Code you will see that this compensation is allotted for the risks and administrative expenses that business has to face, particularly in respect of purchases made on time, and it is not considered as interest although it is one of the elements that go to make up the cost of credit. Otherwise, the constitutional character of the law could have been contested. Does this answer your question?

Mr. CHRÉTIEN: As a matter of fact, is this law applied in the Province of Quebec?

Mr. CHARRON: This law applies only in the case of the retail sale of commercial objects up to the value of \$800, taken individually. This does not include, please note, this does not include the automobile, which is the main reason for the increase in credit buying since the end of the war in 1945. This does not include the automobile and other articles which are bought on time in Canada.

Mr. CHRÉTIEN: In your recommendations, you mention that the law which is to be drawn up should insist on a minimum down payment of 20% for purchases made on time. At present, are most of the purchases made on time, actually transacted without down payment?

Mr. CHARRON: In the Province of Quebec, what I have been talking to you about right now are the retail sales of commercial items up to a value of \$800 with a minimum initial payment, exacted by law, of 15%. I would like to draw your attention to the fact that this minimum payment can be paid

either in money, or in merchandise, or both. It so happens that it is paid, quite often, in merchandise. It also occurs, to a certain extent, that prices are inflated, so that in the final analysis no money is given in down payment. I think that the law should be amended in such a way as to exact, mind you, a payment in money and eliminate the use of merchandise as payment, if we want efficient control.

The Hon. Senator VAILLANCOURT: Mr. Chrétien, may I say a word. Law contained in books is all right enough, only no one pays attention to it. A certain down payment should be made. Secondly, the sales tax should be paid first. However, it often happens that it is not charged. Advertisements are even placed in the papers stating: "not one cent down", not even the sales tax. It's there for everyone to see. The law is not applied. Thirdly, furniture is sold for \$500, but on the contract there will appear \$700 or \$800 which was supposed to be taken for old furniture. Furthermore, it is stated that this is the down payment. This is false. So, that every means is sought to get around the law, to exploit people. This can't be considered as observing the law. The same thing is going on in all the other provinces.

Mr. CHARRON: That is why we are recommending a minimum down payment of 20% payable in money only, and never in merchandise. This would be above all a protection for the consumer, to prevent him being tricked. Secondly, the reason for this 20% down payment is to accustom the borrower to use sound judgment in the use of credit. At present, I think people are buying anything they want, at once and only get around to thinking about it after they have assumed obligations. That is, when the buyers have to think of repayment. With this famous way of breaking up the payments ad infinitum, people are not always careful; they get caught by the advertising which encourages them to buy, but they never think of the total represented by all the payments they will have to make every month, whether it be \$2, 3, 4, 5, or \$10 monthly, thus multiplying the obligations they are taking on. This is why many people assume consumer debts from which they cannot get free. Those who are involved with family welfare, as is the Honourable Senator Vaillancourt, could tell us something about that end of it. Many people go into debt to such an extent that they will never be able to get out of it themselves.

Mr. CHRÉTIEN: What means do you take to prevent such a state of affairs? \$100 is added after the purchase price to cover interest; what method do you recommend to stop or do away with this problem?

The Hon. Senator VAILLANCOURT: People would have to be honest.

Mr. CHARRON: Well, specifically, in this respect, competition will have to act as a check. If people are obliged to pay 20% down on the price of goods, at the regular price, this will make them think before buying. This will oblige them to have at least 20% of the price of the merchandise, which will force them to save before they can buy anything at all. This will make them much more intelligent in the use of credit.

Secondly, this will have an effect on price levels. When this situation occurs, when people will have in their hands 20% of the cost price, they will take the trouble to examine the things they are thinking of buying, particularly when the contracts will have to tell the truth, not only in dollars and cents but with respect to the simple annual interest rate. People will then be able to compare prices and when that occurs, the element of competition will enter into it, because it is not in the dark that they will ever come to understand, but as the light of truth shines on all these things which are at present wrapped in mystery, and by this I mean interest rates and the abusive charges for consumer credit.

Mr. CHRÉTIEN: Many briefs have been submitted, and many witnesses have appeared who have said that it is difficult to explain or to demonstrate to each client what the interest rate is and that it is practically impossible to calculate; do you consider that it is easy to do?

Mr. CHARRON: I agree that there are difficulties, undoubtedly, with regard to the revolving credit accounts. But if mathematicians have been able to make calculations to allow people to go to the moon, which undoubtedly requires highly complicated calculations, there must also be men of science, actuaries and mathematicians who are able to establish methods of control, methods which would make it possible to establish or draw up rapid calculation charts, according to the method of the simple annual interest. It would then be necessary to oblige, under the law, the Federal Superintendent of Insurance who actually controls small loans, to approve certain tables which would be compulsory for all money lenders and credit salesmen.

Mr. CHRÉTIEN: In the credit unions, a lot of personal loans are made to individuals: how can one figure the rate of interest when lending to the consumer? I seem to have read in your brief that you lend money at 7%, how do you figure your interest charges to the consumer?

Mr. CHARRON: The credit unions use exclusively and in every case, the only fair method and the one which corresponds to the true definition of money lending for the time that it is used; when you rent a horse, or a car, you pay for the time that you have rented it; when you rent a house, you pay for the time that you occupy it; it is the method of simple annual interest; that is, the calculation of interest made on the unpaid balance. If there are payments made from month to month, it is the unpaid balance from month to month. So, you take 7% interest on \$120, payable at the rate of \$12 per month, which amounts to \$120 in one year; you deduct your \$12 each month and, at the end, the true interest is \$3.77; the interest is not figured at 7% of the initial amount, which would be \$7.00. And if you deduct it, as in the case of certain respectable financial institutions in Canada and in the province of Quebec, from the initial amount, then, instead of 7% you are up to 13 or 14%.

Mr. CHRÉTIEN: Many people have mentioned before this committee that there are many risks involved in lending money to individuals. From your experience and the numerous credit loans that you have made to consumers, who, in general, are not very rich, do you lose much money in so lending or do consumers pay back rather well, as a rule, because much has been made of the danger involved in lending money to consumers?

Mr. CHARRON: I would like to refer you to an experience we have had; you will find the report on Page 20 of the brief. That is on Page 20 of the Appendix, the last part, and I quote:

The following is a list of the amounts of money lost on loans made by the credit unions during the principal years as listed. The following statistics result from a special questionnaire filled by 65% of the credit unions holding 85% of the assets at December 31st, 1961.

It's on Page 20 of the Appendix, in the French language brief, the last part.

So, you have a scientific point of view—and I think that the information is valid for the very good reason that it covers 65% of the credit unions holding 85% of the total assets,—you have the number of losses since 1950, their monetary value, and the amount of loans made during the year. Take 1961; there were 52 losses totalling \$14,538 and the loans made amounted to \$178,000,000. I have not figured it out, but it is infinitesimal so far as percentage of losses is concerned.

Mr. CHRÉTIEN: So, it would appear that in general, small loans to consumers in the province of Quebec, would not be a very dangerous undertaking.

Mr. CHARRON: Well, I would not want to venture too far, but I would say that we may be dealing in the credit unions with classes of people that are more honest than others. In the credit unions, we educate them. This is not to be considered as criticism of other classes; but this is a case in point and we have figures to back it up.

Mr. CHRÉTIEN: To what class of people do you lend money in the province of Quebec?

Mr. CHARRON: Well if you refer to the first part of the brief, you will see that there are different kinds of borrowers; you will notice the numbers of credit union branches, and you will see that we have approximately 800 branches in rural centers, and the city credit unions, although less numerous, have, on the other hand, a much greater membership because nearly all the population has moved to the cities. Our borrowers are found among the working classes and the farmers. This is apparent in the average size of the loans, which run about \$800. They are more often small loans to common folk . . . whose wealth, for the most part, consists in their honesty.

Mr. CHRÉTIEN: What is your largest loan? What is the maximum amount loaned by the credit unions?

Hon Senator VAILLANCOURT: Against a voucher.

Mr. CHARRON: The maximum amount?

Mr. CHRÉTIEN: The maximum.

Mr. CHARRON: The maximum amount for personal loans is, let us say, about \$2,000.

Mr. CHRÉTIEN: Do you always insist on collateral?

Mr. CHARRON: No, not at all. As you know the Act is silent with regard to loans. It is the credit commissioners who approve their loans to people in the parish, in the locality. We decentralize within human limits, within the limits to which people are known. So, the extent to which people are mutually known serves as a guide and each case is judged according to its merits so far as honesty is concerned, and their financial situation.

Mr. GIRARDIN: If you will allow me, in answer to the question regarding the classes of borrowers, we made a survey in Montreal and asked approximately a hundred "caisses" to whom they lent money. Well this is what the survey revealed. In three months' time, let us say February, March and April 1964, the "caisses" granted 374 loans amounting to half a million dollars to people in the professions; 754 to trades people against I.O.U.'s; 1,400 worth \$1,200,000 to skilled workers; 273 to farmers; 858 worth \$719,000, to semi-skilled workers; 1,218 worth \$215,000, to unskilled workers; 653 worth \$600,000, to women; 95 worth \$50,000 to students, making a total of 7,764 loans worth \$7,322,000 in three months by the 640 "caisses" in and around Montreal. Does that answer your question?

Mr. CHRÉTIEN: Yes, thank you.

Co-Chairman Senator CROLL: Just a moment, now. Mr. Otto and Mr. Naserden have something to say. Mr. Otto.

Mr. OTTO: Mr. Chairman, I will agree that the brief presented by the witness is interesting, but to get back to the problem, since we are not going to legislate consumer credit out of existence, I see on page 10 of this translation of the main brief an item put forward by you. It starts with the words:

Certain big stores obtain such good results from this method of financing purchases that they do not hesitate in asking their customers to pay charges which represent up to 15 per cent interest, if not more. Too many people are astonished by the subtlety of the small payments to the extent that they do not care much about the charges they have

to pay; they only look at the amount payable each month and at the length of the contract.

Now, I would like to investigate the observation that there are a great number of people who do not care about the charges they pay so long as their wants are satisfied by the money at their disposal, and they say to themselves "I am making \$100 a week. I don't care what the interest rate is as long so the monthly payments do not exceed my income." Now, is this attitude one that you have found fairly prevalent in Quebec or in the places where you do business?

Mr. CHARRON: That is rather a difficult question to answer. I can merely make an assumption. No methodical inquiry has ever been made to find out how many people do not bother to inquire about the rate of interest or the charges. I know a survey was made in that regard a number of years ago in the United States, and that according to the results of the survey, the two things the consumers wanted to know was how much they would have to pay each month and how long it would take. Those are the only questions people asked according to a methodical survey of a large number of consumers carried out in the United States. In most cases those two questions were the only ones people asked. However, a small percentage were interested in the rate of interest. So people asked two questions: How much must I pay each month and how long will it take? I do not think there is much difference between human nature in the province of Quebec and in the United States.

Senator VAILLANCOURT: Will you permit me to answer the question?

Mr. OTTO: Yes.

Senator VAILLANCOURT: We had an experience of this two years ago in Levis. There is an organization there called La Société St. Vincent-de-Paul, of which I have been the president for only 50 years. During the wintertime we were obliged to furnish food and fuel, and so on, to 17 families, and out of those 17 families 13 were obliged to pay \$1, \$2 or \$3, or even a larger amount each week to a finance company. We asked the family-social organization to investigate and find out why these people were obliged to pay money to the finance companies. They found out that it was the interest on money they had borrowed to buy certain things. These families said: "We pay \$1 or \$2 a week, and we never mind the interest". That is a terrible thing. When these people come to the caisse populaire and ask for credit, we investigate and inquire into the reason why credit is required.

A poor man will buy an old automobile for \$150, and he is obliged to pay \$5 a week, plus the cost of his licence, insurance, and so on. But, when the winter comes La Société St. Vincent-de-Paul is obliged to supply food for his children, and so on. So this organization, whose object it is to help poor people, in reality helps the finance companies. If these people come to the caisse populaire to ask for \$150 to buy an automobile the caisse populaire refuses to give them the money. The caisse populaire lends money only in cases of real need, and to assist people. It furnishes money to help them consolidate their debts, or to buy a refrigerator, which is something that helps the family, but it will not lend money to buy jewellery or merchandise of that nature.

Mr. OTTO: Whether or not we agree with you, the question of whether a finance company should decide what people will or will not buy is a political question, and we do not want to get into that. I am interested in the statement you made in your brief about an article in *Fortune* magazine, because this fact has been denied by most of the witnesses in the retail business who have appeared before us.

Co-Chairman Senator CROLL: It is on page 10 of the brief.

Mr. OTTO: At page 10 of your brief, on the subject of budgetary accounts you say:

In an article published in *Fortune* magazine on the subject of the budgetary account . . . Mr. William Whyte, Jr., wrote that certain department stores make more profit with the interest and charges they collect on their sales than with the goods themselves.

Quite a number of witnesses were asked not whether they made more money but whether they made a considerable amount of money, and most of the witnesses representing the retail sales outlets denied this absolutely and positively. They said that no money was being made. Do you have any evidence in support of this statement, or is this strictly a quotation of Mr. William Whyte, Jr., without substantiation?

Mr. CHARRON: I really think this question should be answered by those who are in the business; as far as I am concerned, I cannot. There would be the *Fortune* editor who wrote this, although you can read the same thing in several works published in the United States, such as "Consumer Sensitivity to Finance Rates" by Shay and Justin and based on a scientific study made recently for the "National Bureau of Economic Research". Also, you may find more detailed information in a book published in New York by Mr. Black and titled "Buy Now, Pay Later", prefaced by Senator Douglas of Wisconsin, with a chapter titled "Debt Merchants" dealing with the credit business. In our kind of economy, credit is functional. Now, credit is a business by itself which is actually being degraded to meet the requirements of consumer credit; that is what I oppose vehemently.

Mr. OTTO: Well, you are not alone in this suspicion. There has been a suspicion expressed in the committee that the goods themselves might be just a means of getting the real profit in consumer credit. I think you have answered my question in saying that it would be rather difficult to find out, except from the sources of retail sales.

On the next page there is something that has not been proposed to this committee before. You are discussing automobile sales and consumer credit, and you say:

Consequently 72.9 per cent of the sales on the instalment plan in the retail business in 1956 were for automobiles and other motor vehicles.

That is 72.9 per cent in 1956. Do you have any evidence to show that these figures are still correct today? This means that almost three-quarters of the consumer credit sales are in the field of automobiles and motor vehicles. I am asking whether this figure would still hold true in 1964?

Mr. CHARRON: Well, I was unable to answer your question because I only had the figures for 1956, I did not have them for 1963, so I just gave you those for 1956 as an indication.

Mr. OTTO: I have one other question. In your recommendation "F" you propose that retailers should be obliged to demand from the consumer a down payment equal to 20 per cent. Is there any reason for choosing 20 per cent as against 10 per cent or 12 per cent? Why 20 per cent? Is there some reason for this figure?

Mr. CHARRON: The reason is that when someone uses 20% of his own money to buy an item, the proportion is sufficient, it seems to me, for people to give the matter serious consideration and put their business in order. If I had set that at 10% there would have been much less reason and a margin of 10% could encourage the merchant to take advantage of the Act, to the detriment of the consumer, by increasing his prices. It is more difficult with 20 per cent. I could have put in 25% or even the 30% that some people advocate. During the Korean war, for example, some people wanted up to

33½% but at that time there were the emergency measures and I think that 33½% would be excessive and it might cause an economic upheaval. But I think that with 20% down there will not be any upheaval, but rather that it will bring some order into consumer credit.

MR. NASSERDEN: Mr. Chairman, I should like first of all to congratulate these gentlemen for their thoughtful brief. It is a very full brief, and it shows that their organization is doing wonderful work in the field of consumer credit. Of course, we are all familiar with what the credit unions are doing across Canada in the field of consumer credit, but there are one or two questions that this brief raises in my mind. Do you feel that the Government as such could set up a guaranteed home and family development loan branch to provide money for some of the types of credit that today are classed as consumer credit? I am not thinking of food, but of furniture and home improvements of all kinds, and, perhaps, automobiles, and so on. Do you think that loans could be guaranteed by the Government at a low rate of interest in much the same way as loans are guaranteed to enable farming people to purchase machinery and other things?

MR. CHARRON: Well, I do not know. You are taking me somewhat by surprise with that question as I had never considered that extreme solution. I think we should first take what I consider to be perfectly normal steps on the part of private enterprise because we have both a legislative and an educational problem. I think we should first educate the consumer who would be protected by an appropriate Act. Education takes place in broad daylight and not under the cover of darkness. Let us begin by throwing light on the problem of consumer credit by establishing control, that is, sensible legislation. We should try to educate the public by sensible means and when we have used all those means, then maybe we can pass on to the suggested solution if those means prove inadequate. That is my point of view.

MR. NASSERDEN: The reason I mentioned it was that, if I am not mistaken, you make a recommendation that the interest rate be not more than one per cent per month. Taken on the average instalment purchase, that works out at much more than one per cent per month. From my standpoint, I would not consider that to be a reasonable rate of interest. I would say that is much too high an interest rate.

In cases where you see a need amongst the people that is not being filled and which cannot be filled by the restrictions you have enumerated here—some of those restrictions may be a little impractical for a business concern—do you not think there is a place for Government to move in and make money available? That is also one way to educate the people that they could secure it from some source at a much lower rate than they could secure it even at one per cent per month.

I am not deprecating the educational value that you refer to in the brief, but it seems to me that we shall have to think of these two problems if we are to be successful in reaching a solution. I know that you are in the business of securing money from people who have savings and then lending it back to others who need it, but you cannot fill the need in full. The credit unions and the banks are not able to fill the total need for credit across the country. Your resources are pretty well put to full use today.

MR. CHARRON: I do not think there is any lack of credit in Canada. I think, rather, that there is a need for more savings in the framework of the Canadian economy instead of giving greater credit facilities, some even backed by the government. It is my impression that in our present Canadian economy, an economy that is under construction, we should rather turn consumer credit towards production credit, that is, recommendations according to which savings that supply credit would be channelled to a greater extent towards

production credit. When you consider the context of the Canadian economy as compared with that of the United States and realize that foreign capital is coming into Canada by the billion you feel less inclined to favour consumer credit. It seems to me that too much capital is being channelled to consumer credit compared to what is being done for production credit. Personal and corporative credit should be favoured to a greater extent so as to get more Canadian investment for the construction of our Canadian economy. That is very important for a country such as Canada which, I think, is considered to be the second largest country in the world geographically, but its population is only 19 million and its domestic market is inadequate, which obliges it to do a lot of exporting. As everyone knows, England colonized the United States with a mortgage credit and not as the United States are doing now in Canada, in the form of shares which establish ownership and draw off the profits which go to increase capital in the U.S. That is why the matter of finding credit for production came up at a certain time and no one can say that Canadian savings provide too much credit for building the economy. In other words we should make better use of our savings, have balanced savings which would enable us to increase our secondary industries which need less capital investment than primary industry and correct the different economic structure of our country.

Co-Chairman Senator CROLL: Mr. Nasserden, take a look at page 4 of the first brief. Do you notice there "Augmentation of Debts to Consumer"?

Mr. NASSERDEN: Yes, I read that.

Co-Chairman Senator CROLL: That is what led to your question. Will you face him now with those figures, in view of what he said.

Mr. CHARRON, on page 4 of your brief, the English text, you indicate that in Canada we are absorbing 16 per cent of the available personal revenue for consumer credit, and in the United States it is exactly the same.

Mr. CHARRON: It is the same. It is not the same problem. It is different in Canada. It is the same signification for the United States and Canada because the United States has a population of 200 million persons and the population in Canada is only 20 million persons. We here are in an inferior market, compared with the United States.

Co-Chairman Senator CROLL: Speak in French if it is easier for you.

Mr. CHARRON: You cannot compare 16 per cent in the United States with 16 per cent in Canada. Sixteen per cent in Canada is an excessive burden whereas for the Americans it is not an excessive burden. I have another comment regarding consumer credit in Canada. In Canada it is made for people who have no income or who are in the low income brackets, whereas in the United States consumer credit exists rather for people earning \$5,000 or over, people who have good jobs, who are optimistic because they are sure their income will increase and because they belong to a steady middle class. Their income and their job being steady they can afford to buy what they want immediately while they are young. They say, we are not going to wait until we are sixty-five to get furniture and enjoy modern comfort. They do not wait until they are thirty to get married and they buy all they want when they get married because they have an income of \$5,000 or \$6,000 or more, which allows them to buy whatever they want immediately. We made a survey in the United States and found that if consumer credit stopped tomorrow morning, in nine months time people would have paid off nearly all their consumer debts. I defy anyone to say the same applies to Canada because people who get into debt through using consumer credit are not likely to get out of debt for a long time, unless others come to their assistance, and people other than themselves may be the victims.

Mr. NASSERDEN: I think we are agreed generally with what the witness has said, except that we might say one of the reasons why they are in debt to the extent they are is the high interest rate they have been paying. That is why I asked whether the witness thought perhaps there was room, beyond what is available for credit unions and such organizations, for government to move in and make it available, instead of people having to go to these other organizations who say that they cannot provide credit any cheaper than the rate at which they are providing it today. When you take it on a one per cent per month reducing balance, it works out at much more than 12 per cent. To my mind that is an excessive rate of interest. As far as the portion is concerned that should go to consumer or producer, we are not going to quarrel about that here. That is something which poses a much larger question than that which we are discussing here today. Perhaps I should ask you this question: do you think that the present bank rate is a fair one and one which should be maintained at about its present level?

Mr. CHARRON: With regard to consumer credit, and to follow up what you have just said, I fully understand your point of view and I share it at least to some extent.

As you know, for a number of years now, the banks have been dealing increasingly in consumer credit at a rate of interest of 6 per cent of the initial amount, to be reimbursed by regular payments of a set amount. Some banks even deduct, that is they subtract, the interest loaned, instead of \$100 they give the borrower \$94. They deduct \$6 which amounts to 11.8 per cent in interest, I believe.

I remember that Mr. MacKinnon, the general manager of the Canadian Imperial Bank of Commerce, the first bank to offer this system of loans to the public in 1936, before the war, stated before the Special Committee on Banking in 1954 that this system of loans to the public cost them approximately 8 per cent in all. This means they nevertheless get 4 per cent in relation to the interest of 12 per cent approximately. This, it seems to me, is well worth their while. This is just to show you that from my point of view the rate of interest of 1½ or 2 per per cent per month on small loans is exaggerated even if the loan companies, as they maintain, are losing money. If their system is too expensive all they have to do is leave the loan business to institutions who have a good system. Moreover, experience and certain figures point quite clearly to that fact.

Mr. MARCOUX: Mr. Chairman, first of all I would like to congratulate the gentleman who submitted the brief and those who drafted it. The brief is very complete, was well prepared and shows the role the *caisses populaires* have been playing since they were founded. Of course, several points are dealt with, and I think a number of questions are suggested when one reads the brief. Unfortunately, I only received it yesterday. The provincial Act on consumer loans was mentioned a while ago in connection with the cost of compensation. Obviously compensation at the rate of ¾ per cent to my mind amounts to additional expense on which the Federal Government cannot legislate. This means that even if we did make recommendations regarding the rate of interest, those recommendations could not be implemented. We also want to make recommendations regarding compensation authorized under the provincial Act. I think our legislation would be *ultra vires* and would bring no results.

Mr. CHARRON: Well, as I understand, the federal government has jurisdiction with regard to determining maximum interest rates. I am no jurist. I am giving my personal opinion, as I well feel, the federal government may determine interest rates on direct or indirect loans, whatever they may be. There are two ways by which to provide credit, the direct loan of money and the indirect loan by way of purchase on credit. At that moment, after federal leg-

islation, the province would add certain compensation charges in order to control costs and additional interest charges. But I think such legislation would not be 100 per cent efficient. However, I feel that it would be a great improvement over what we have now if the contract be made to require that the percentage of interest and charges be determined in simple annual interest rates on a monthly or annual basis. I have no objection to either method. What is important is to determine the charges, including simple interest which is compulsory based on the unpaid balance.

Secondly, if in addition the down payment required is only 15, 20 or 25 per cent of the regular selling price, this would depend on the items bought, because the risk is not the same,—some items having a longer life,—and because consumer credit nowadays applies primarily to automobiles or other durable goods. It does not apply to consumer goods or to accountable goods anymore but rather to durable goods.

Thirdly, it is compulsory to specify in the contract that it can be cancelled and that the purchaser shall no longer be bound by certain terms of the contract if the latter does not comply with the law under which these were laid down. I feel this will make purchasers act more wisely. I have always favoured gradually improved procedures. Let us start by taking certain steps in the right direction; then, in the light of experience, we can see how to improve this legislation.

Mr. MARCOUX: Everybody knows about the educational program sponsored by credit unions at the local level, and for some years now, at the national level through television and radio broadcasts; I have not had the pleasure of listening to these broadcasts very often, as we have other programs to look at here in the House,—do your educational programs sufficiently emphasize the risks of credit the way Canadians usually understand it or do you merely discuss savings and economy in these broadcasts?

Senator VAILLANCOURT: We have dealt with this question in our early television programs which showed people being exploited by consumer credit lenders and others who got out of the hole after following our lectures. We have had 13 broadcasts dealing with personal and family budget and 13 others on the problem of hunger throughout the world.

Mr. MARCOUX: Mr. President, may I ask a few other questions. With regard to available amounts, which should also be available to credit, do you feel it would be possible to help more people than you or credit institutions do now, that is, taking into account their solvency?

Mr. CHARRON: If you look at statistics showing credit union operations for the past few years, you will realize that considerable progress has been achieved in the amount of money the credit unions provide for consumer credit. It may well be that the broadcast produced jointly by *L'Assurance-Vie Desjardins* and *Les Caisses populaires* and titled "*Joindre les deux bouts*" ("Making ends meet") has largely contributed to this practical achievement. We discussed problems of consumer credit, savings, prices and family budget at an international conference held in Levis in 1957. For the past few years, credit unions have made considerable progress and I have reason to believe they will continue to make their way in this field and in this direction.

Mr. MARCOUX: Allow me a further explanation. I did not necessarily mean the credit unions, but, generally, in view of the individual's ability to pay an interest rate of "X" %, and your credit unions providing guaranteed credit at a cheap rate, do you not think that other loan companies could grant loans identical to yours but on easier terms and without asking for such high interest rates as they do now?

Mr. CHARRON: That is more or less what is indicated in our brief. The cost of credit should be established. It should be made known through adver-

tising as well as in the contract. Also, legislation should extend to advertising so that people are not misled. People do not realize that one-third of their purchasing power goes for certain types of consumer credit operations; if these people were told the truth, particularly those with low incomes, they would open their eyes; if it were made particularly clear to them, that, over a long period, one-third of their earnings goes to pay interest, they would become reasonable and they would buy more wisely.

Mr. MARCOUX: We know that credit unions have a substantial reserve fund and it is mentioned that this fund might be used partly by industry,—there has been some talk about it,—do you not think that this fund might be used more adequately for the purpose of financing consumer credit since the customers you would lose by lack of funds would be eaten up by unscrupulous companies?

Mr. CHARRON: I shall point out to you that the 30 or 40 million dollars reserve fund you are thinking of is already largely invested in consumer credit since reserve funds are actually part of the union's assets as loans and investments. Personal loans of about \$140,000,000 were granted for the greatest part to consumer credit in 1964 and these reserve funds are invested in these loans except for a small percentage which, by statute, we must invest in government bonds. All the balance is already part of the unions' assets by way of different types of loans.

Mr. MARCOUX: What amount would this low percentage represent at this time?

Mr. CHARRON: It could represent from 5 to 6 million dollars out of assets of one billion dollars. It is a small percentage, is it not, Mr. Marcoux?

Mr. MARCOUX: I do not wish to insist any further, Mr. President, and, although I might have other questions to ask I think I have done my part.

Co-Chairman Senator CROLL: Dr. Marcoux,—well Mr. L'Heureux, first, then you can speak again, Doctor.

Mr. L'HEUREUX: Mr. Charron, with regard to second mortgages which you have referred to in your brief on page thirty-nine, would you have any practical suggestion to make?

Mr. CHARRON: I must admit that we do not allow loans on second mortgages. I have not made any particular study of this problem of loans on second mortgages although I have received all kinds of information on this problem. This material which I have examined certifies that companies and individuals charge 30 and 40 per cent interest on second mortgage loans and this seems to be done without shame by people who are considered to be responsible and to have a good reputation. We suggest in our brief that consideration be given to this problem as second mortgages are often related to consumer credit and because there is considerable abuse in this field.

Mr. L'HEUREUX: In your proposals, you mention that legislation should provide for cancellation of contract; are you thinking of door to door selling or peddlers?

Mr. CHARRON: All those who have to contract, without exception and including peddlers, could benefit by reading Pierre Berton's book "Big Sell" on how people get fooled. . .

Mr. CHRÉTIEN: That is, if someone makes a loan of \$1,000, for example, and charges an excessive interest rate of, let us say, more than 15 per cent, you suggest that the loan be cancelled completely?

Mr. CHARRON: I say that the contracts may be cancelled when they do not comply with the law. Legislation should be enacted by the federal government on credit rates and costs and these be specified in contracts. Let us assume that legislation be passed by the provinces regarding sales on credit

and sales on instalments and that the province of Quebec amend its own legislation; let us suppose that federal legislation calls for declaration and calculation of interest rates and charges approved by the federal Superintendent of Insurance, then, contracts which do not meet statutory requirements could be cancelled.

Evidently, such matters would have to be brought before the Court which would have to decide. A certain period of time should be allowed for purchasers to check their contract. Some favour a three day period but I think three days is not enough; if a contract is signed, for example, on a Friday the purchaser could then not do a thing on Saturday, nor on Sunday, nor on Monday in case it is a holiday; the period granted should then be 6 or 7 days in order that all concerned may carefully check their contract to ensure that it complies with the law and, if not, the contract may be cancelled by the Court. The procedure should be simple and for the contracting parties only.

Mr. CHRÉTIEN: You made reference to the Quebec provincial law concerning sales on instalments; under this law, if the contract has not been worded correctly or if the interest rate is excessive, the company or dealer remains the owner of the piece of furniture; but, the amount of indebtedness is not all paid, is it not?

Mr. CHARRON: No. What happens often in sales on instalments is that when certain terms are not complied with, they are said to be sales on credit and not sales on instalments. Cases then fall within the provisions of another law and the consumer continues to pay his debt as he can.

Mr. CHRÉTIEN: It becomes a moral indebtedness.

Mr. CHARRON: It becomes a case of selling on credit as others.

Mr. CHRÉTIEN: Is the debt cancelled?

Mr. CHARRON: No.

Mr. CHRÉTIEN: I think it is not fair for the lender to lose \$1,000; I rather think that the person who violates the law should in all fairness lose everything.

Mr. CHARRON: In the contract, I do not suggest that he should be relieved of his indebtedness in the sense that he would have nothing to pay; it would be up to the Court to decide. In short, the individual could be relieved of an obligation which does not comply with the law; there would actually be another obligation the terms of which the Court would indicate to the contracting parties. In that sense, the contract could be cancelled but the Court would decide.

Co-Chairman Senator CROLL: Mr. Charron, what Mr. Chrétien is saying to you is that the seller should not lose the principal of the debt. The Porter Commission on finance recommends, as he points out, that they should only lose the interest.

Mr. CHARRON: Yes, lose the interest and charges.

Co-Chairman Senator CROLL: Do you agree with that? That is your point, Mr. Chrétien?

Mr. CHRÉTIEN: Yes, that is the point exactly.

Mr. CHARRON: I did not want to venture on that point as this is a legal problem which is to be considered individually in each case of abuse; I just wanted to point it out so as to prevent abuse. In case of violation, a penalty imposed by the Court should be prevented.

Mr. CHRÉTIEN: There is of course the loss in interest, the loss in capital.

Co-Chairman Senator CROLL: Yes, that is what Mr. Chrétien said.

Mr. MARCOUX: As I understand, Mr. Charron, when a man has raised a loan of \$1,000, bearing interest at the rate of 12 to 24 per cent and the Court decides that the contract is in violation of the law, he remits the \$1,000 to the company without any further obligation to the seller; that is how I see it.

Mr. CHARRON: I could have said that, in all fairness to both parties, the law should require the rate to be brought back to the rate legally approved in Canada. I did not want to enter into these details which refer to legal procedures. But, as no one can take the law into one's own hands, it would be a matter for a Court to decide.

Mr. URIE: Mr. Charron, I have been very impressed with the disclosure of the costs of loans as shown on page 20 of the English brief, and I notice that under both the, I would take it, unsecured loans and the loans secured by mortgage your average rate is 6 per cent to 6.49 per cent for the majority of loans, the largest single group.

The testimony of the Ontario Credit Unions before us was that they charge an interest rate of 1 per cent per month on the declining balance; that at the end of the year most but not all of the individual credit unions offer a rebate of approximately 3 per cent to each of their members, making an over-all rate of approximately 9 per cent; and that by the time they have done this all the profits involved have been pretty well dissipated and there is very little left other than the Government requirements with respect to reserves.

I am interested to ascertain, if possible, how you can operate, apparently profitably, at considerably lower rates even than the Ontario Credit Unions which, I think, are fairly typical of credit unions throughout the rest of the country.

Mr. CHARRON: I don't know. I am not sure that I have grasped the question referring to our interest rates of 6 or 7 per cent are compared to those of "Credit Unions".

Mr. MARCOUX: I say that "Credit Unions" charging 1 per cent per month do not seem to make too much money whereas you seem to do good business with a 6 per cent charge; I ask for an explanation.

Mr. CHARRON: This is a question of administrative efficiency arising largely from the decentralized administrative functions of credit unions. Part of the savings fund is loaned as bonds or mortgage loans which yield $5\frac{1}{2}$ to 6 per cent or more. This contributes largely to the credit unions revenues.

Secondly, interest on savings which is generally 3 per cent is based quarterly on the savings account balance so that this would not be a 3 per cent rate. Comparing interest rates with the actual amount of interest paid only leads to confusion.

Mr. URIE: Then I take it that your answer is that probably it is a question of efficiency of administration rather than any other secret formula which you have.

Senator VAILLANCOURT: We have no secret formula. It is a secret well known.

Mr. URIE: I take it you do operate profitably and that there are profits at the end of year. What I am attempting to get at, Mr. Charron, is this: you, as a caisse populaire, are operating at very low interest rates compared to practically anybody else we have had before us. Your loss ratios are very low. The loss ratios of the finance companies and loan institutions that have appeared before us appear to be very low, but not nearly as low as yours. Do you feel it is possible for commercial organizations who, of necessity perhaps, have to lend money or grant credit to poorer credit risks, to operate at substantially lower interest rates than they presently are and still make a repayment on their investment to their investors?

Mr. CHARRON: I think it is partly explained by the cooperative spirit of the institution which is free of charge as far as its functions are concerned. Only the manager and his assistants are remunerated. In other words, the administrative functions are free. Loans are distributed by the credit commis-

sioners and no costly investigation is needed because they know their people. There are no investigation expenses, no administrative expenses etc. That is one of the virtues of cooperatives based on the decentralization of their functions, the fact that they are in contact with the people they want to help by granting them loans to help themselves. That is an enormous difference. Other institutions loan to all and sundry. They are obliged to make investigations and to pay large dividends, whereas we just pay reasonable interest on savings and shares in the organization. Administrative expenses are reduced to a minimum because the object of the *caisses populaires* is precisely to use the savings of working people to give working people loans, and it works very well. So we should not try to compare institutions that cannot be compared because their structure, operation and purposes are different. When you do that difficulties crop up and it is difficult to understand.

Mr. URIE: But you do recognize, I take it, that there are certain expenses which a commercial organization whose business it is to make money out of lending money or advancing credit would have that you do not have as a result of which, presumably, their charges must be somewhat higher, is that so?

Mr. CHARRON: Yes, I think so.

Mr. URIE: Do you have any idea, or do you as a group or organization have any recommendations to make as to how high the limits should be placed?

Mr. CHARRON: It is rather difficult. You can make a note of the experience, in other words, as I said, you must determine what the charges of other institutions are. I have the impression—I am trying to give you my personal opinion—that they are high. I remember that in 1956 I appeared before the committee on Small Loans and we recommended that the rate of interest and charges be substantially reduced. At that time it raised a hue and cry. Some people said that several loan companies would have to close down. Nevertheless we obtained a reduction of $\frac{1}{2}$ per cent at that time in the Small Loans Act.

Mr. URIE: This is under the Small Loans Act.

Mr. CHARRON: That is right. But if you look at the 1956 figures in reports on small loans, you will see that no one went out of business but, on the contrary, a lot of other companies came into being. The volume of loans increased considerably as did profits. I maintain that we can conclude that charges should be substantially reduced. I even go so far as to point out in the brief that a reasonable rate on small loans up to \$500 would be 1 per cent per month or 12 per cent per annum. I know the banks get as much as 11.8 per cent interest by means of the "add-on" system. I have already stated that the administrative services absorb about 8 per cent which leaves approximately 4 per cent of profit, which is not bad. It is nevertheless another indication that we should control small loans as far as cost is concerned and that any loan up to \$5,000 should come under the administrative jurisdiction of the federal Superintendent of Insurance who, at the present time sees to the administration of small loans up to \$1,500 at 12 per cent interest or more. I consider that 9 per cent would be worthwhile on loans of \$500 to \$5,000 and that the Small Loans Act should be amended in order to cover small loans up to \$5,000.

Mr. URIE: Then I may take it—that is with respect to the recommendations of the Porter Royal Commission in which they suggested that the maximum amount to be loaned under the Small Loans Act should be increased to \$5,000, and that the rate of interest on all loans under \$1,000 should be a flat one per cent. Your views, I take it, are that these rates are exorbitant?

Mr. CHARRON: For over \$500, I have suggested three-quarters of one per cent per month or 9 per cent per annum.

Mr. URIE: On all loans?

Mr. CHARRON: On all loans exceeding \$500.

Mr. URIE: Do you agree with the recommendation that the maximum amount should be \$5,000?

Mr. CHARRON: I do not agree with the recommendation of the commission in this matter.

Mr. URIE: What do you think the limit should be?

Mr. MARCOUX: He is asking whether you agree that small loans should be limited to \$5,000.

Mr. CHARRON: That would be fine. It is right in this report.

Co-Chairman Senator CROLL: Did you understand Mr. Urie's question?

Mr. CHARRON: Yes.

Co-Chairman Senator CROLL: What was your answer?

Mr. CHARRON: We agree with the Royal Commission on the ceiling of the loan of \$5,000 under the Small Loans Act supervised by the Superintendent of Insurance.

Mr. URIE: We had another recommendation which may or may not be possible for this committee to make a report on. This is with reference to door-to-door salesmen which was mentioned earlier.

Co-Chairman Senator CROLL: He put it as those "who charm the ladies."

Mr. URIE: We have had several briefs which indicated that there should be a cooling-off period—a time for reconsideration. What is your view on that, Mr. Charron?

Mr. MARCOUX: He is asking whether there should be a period of time, as he says . . .

Mr. CHARRON: From 5 to 7 days.

Mr. MARCOUX: . . . to reduce their enthusiasm, to allow individuals to cancel the contract in the case of door to door sales. What happens today is that people sign a contract and two days later they realize there is nothing they can do. Someone suggested that there should be a certain delay between the time the contract is signed and the time it becomes valid. He wants to know your opinion.

Mr. CHARRON: I know some witnesses suggested three days. For my part I would suggest five to six days, let us say six, because I do not think three days is long enough. If something is purchased on a Friday for instance, there is Saturday and Sunday and sometimes Monday is a statutory or other holiday, so the purchaser cannot do anything, that is why I suggest from five to six days.

Mr. CHRÉTIEN: I would like to ask you a question. I would like to have your opinion. What surprises me is that the banks loan at 6 per cent which, when calculated on the basis of the actual rate, is equivalent to 11.3 or 11.8 per cent and they say that their administrative expenses are 8 per cent.

Mr. CHARRON: That is what a representative of one of the banks said in 1954.

Mr. CHRÉTIEN: You yourselves lend at 6 per cent and you make much more profit than the banks. You operate, so to say on loans in exactly the same way as the banks, that is, you receive the consumers and you lend them \$1,000 so that as far as the administrative services are concerned they are the same as those of the banks?

Mr. CHARRON: As I said a moment ago, the *caisses populaires* are non-profit cooperative institutions. The *caisses populaires* are local agencies who

work free of charge. There is no investigation, there are no incidental expenses. You are trying to compare two institutions that cannot be compared. I have explained our sources of revenue, the interest paid on savings and the registered capital.

Senator VAILLANCOURT: One other thing. It should not be forgotten that the *caisses populaires* grant mortgage loans whereas the banks do not, or if they do, it is only to a limited extent. So a mortgage loan of \$7 to \$8,000 costs a lot less than 25 small loans amounting to \$8,000. In addition, all the administrative work is free.

Co-Chairman Senator CROLL: Mr. Charron was speaking about consumer loans and not mortgages.

Senator VAILLANCOURT: But he asked why we can operate with 6 per cent interest, with profits, while the others cannot. The reason we have is that we have a large amount of our own money on mortgage loans and the expenses are very low and on notes. That is a reason.

Mr. URIE: Part of the reason.

Mr. CHRÉTIEN: But on small consumer loans, say \$200, you charge 6 per cent?

Senator VAILLANCOURT: Yes, 6 per cent.

Mr. CHRÉTIEN: And on these \$200 loans at 6 per cent you do not lose any money?

Senator VAILLANCOURT: No.

Mr. CHRÉTIEN: The banks would have approximately 8 per cent in expenses on small loans?

Senator VAILLANCOURT: But we make ours on IOUs. Well, maybe you want to discuss our figures; but you see the *caisses populaires* are cooperatives and all the revenue goes into the community. The money received on mortgage loans is used to help other people.

Mr. CHRÉTIEN: In that case you more or less suggest that the mortgage loans pay for the loans to individuals against IOUs?

Senator VAILLANCOURT: We do not merely suggest it, we actually do it. We do not just say we do it, you understand. As Mr. Charron said a moment ago if the finance companies charged $\frac{3}{4}$ per cent per month on the unpaid balance of loans exceeding \$500 against IOUs it would be reasonable.

Mr. CHARRON: As a matter of fact it is undesirable that the finance companies should charge nearly 12 per cent on small loans up to \$500, but for small loans exceeding \$500 and up to \$5,000 we think 9 per cent would be a reasonable limit and would not be excessive.

Mr. MARCOUX: To follow up Mr. Chrétien's suggestion, if you did not have mortgage loans which helped to bring grist to the mill you might have suggested $\frac{3}{4}$ per cent not to go any lower?

Mr. CHARRON: No, I did not say that. I said that the experience of the *caisses populaires* cannot be transposed to other loan institutions because we are in a different position. If the *caisses* get 6, $6\frac{1}{2}$ or 7 per cent on personal loans it depends on certain factors peculiar to the *caisses*. But we have a margin which enables us to say that the other institutions could avoid charging more than 12 per cent or 1 per cent per month on small loans. As we said, some banks charge 6 per cent making their interest equivalent to 11.8 per cent.

Mr. CHRÉTIEN: Do you believe the banks when they say that consumer loans cost them 8 per cent? Do you believe that?

Mr. CHARRON: I am not saying whether I believe it or not, I am just accepting the evidence without argument.

Mr. CHRÉTIEN: You, who are an expert . . .

Mr. CHARRON: I am just repeating the evidence given in 1954 by the bank who stated before the committee that one seventh of all loans to the public cost 8.4 per cent—I have a very good memory.

Mr. CHRÉTIEN: You do not question their point of view?

Mr. CHARRON: No, and I do know whether it is right or wrong.

Co-Chairman Senator CROLL: Mr. Chrétien, Mr. Charron is now giving testimony as to what happened at that time in 1954. I was chairman of the committee at that time, and I well remember the testimony. What he is saying, of course, is very true. That evidence was given at that time, but I think the point he made was that actually this is small people lending to small people. The loans are almost on a parish basis; they are collective parishes. Is that not what it is?

Senator VAILLANCOURT: Yes.

Co-Chairman Senator CROLL: Is not that the secret of it, Mr. Chrétien?

Mr. CHRÉTIEN: Yes.

Mr. MACDONALD: They do not need a large credit apparatus.

Co-Chairman Senator CROLL: That is right. I know that Mr. Chrétien has lived with it, and that is their secret weapon that they do not speak about.

Mr. GIRARDIN: Mr. Chairman, if I may be permitted the following valuation; the credit unions' assets yield an average of $5\frac{1}{2}\%$. Of this, $2\frac{3}{4}\%$ goes to pay interest and premiums on the shares and savings—approximately $2\frac{3}{4}\%$ of the $5\frac{1}{2}\%$. Salaries, rentals and administration accounts for $1\frac{1}{2}\%$; contributions and insurances take up $\frac{3}{4}$ of 1% which leaves a carry over of $\frac{1}{2}$ of 1% for the actual assets, totalling $5\frac{1}{2}\%$. The yield is approximately $5\frac{1}{2}\%$, $2\frac{3}{4}\%$ goes in interest and premiums, $1\frac{1}{2}\%$, in salaries and rentals; memberships and insurance take up $\frac{3}{4}$ of 1% and the actual assets are $\frac{1}{2}$ of 1%.

Mr. CHRÉTIEN: Mr. Chairman, before leaving the floor to Mr. Urie, I would like to make a comment which has no direct bearing, perhaps, on consumer credit. However, I would like to take this opportunity of congratulating the *Caisse populaires* for the progressive spirit they have demonstrated in the Province of Quebec, with regard to architecture and particularly where the *Caisse populaire* of Repentigny is concerned; this is a masterpiece.

Co-Chairman Senator CROLL: Mr. Urie, please go ahead.

Mr. URIE: I have just one or two more questions to ask. You have recommended that the interest rate, or the cost of the loan be at the rate of three-quarters of one per cent. Would you agree or disagree with the statement that has been made by a number of witnesses that in the case of retail credit—that is, credit advanced by retailers either on the revolving or budgetary basis, or some other similar basis—that the costs for the small amount of credit advanced requires a substantially higher percentage amount than three-quarters of one per cent; that perhaps that limit would not be applicable to that circumstance.

Mr. CHARRON: I think it is possible.

Mr. URIE: Do you have any comments to make in respect of that?

Mr. CHARRON: No.

Mr. URIE: Have you any suggestions to make as to how this—

Mr. CHARRON: No, no suggestions.

Mr. URIE: You may recall that in the Porter Royal Commission report it was suggested that on credit advanced under \$50 there be a flat rate charged. What would be your view in respect of that?

Mr. CHARRON: Mr. Chairman, one can take an average, using the different amounts unpaid during the month, or as some companies do, charge the

interest at the beginning of the month and not at the end of the month. When a person makes two or three purchases before the end of the month, for instance, although he may have a balance of \$50, he may make a purchase of \$300 during the last days of the month, and, if interest is charged at the rate of $1\frac{1}{2}\%$, as many salesmen do, on revolving credit accounts, they may exact in such cases interest up to 1,000%, which would be iniquitous. Therefore, if interest is charged at the beginning of the month, it is undoubtedly less dangerous. The best way, in my opinion, is to take the average balance of the month and figure the interest on the average balance. Both methods are followed in different places.

Mr. MARCOUXS Mr. Charron, I don't think you quite grasped Mr. Urie's question. He said that the question had been raised before the Porter Commission, of having fixed charges for loans of less than \$50; would you be in agreement with this recommendation?

Mr. CHARRON: Yes, I would agree on that point.

Mr. URIE: Thank you. You have also said that for revolving credit the amount to be charged should be calculated on the basis of the average amount of credit outstanding in any given month; is that correct?

Mr. CHARRON: Yes.

Mr. URIE: That is the type of answer we were looking for. There is just one other question that I have to deal with, and it is with respect to promissory notes that are given frequently in support of, or as collateral security to, a conditional sales contract on the purchase of a car. We have had complaints that these notes are discounted with an acceptance company or a finance company, as a result of which any complaints that the purchaser may have with respect to the merchandise, or any of the equities that are available to him, disappear. Do you have any thoughts as to how this problem might be resolved, or have you given that matter any consideration at all?

Co-Chairman Senator CROLL: They really do not deal with that, do they?

Mr. URIE: No, but I am sure they run into these problems during the course of their discussions with their clients.

Mr. CHRÉTIEN: Mr. Charron, Mr. Urie would like your opinion on the following point. When a consumer buys an automobile and signs a financing contract and, at the foot of it, a promissory note which is thereafter sold to another financial establishment, Mr. Urie would like to know whether you have any specific ideas on how to settle this problem, inasmuch as many complaints in this respect have been brought to the attention of the Committee.

Mr. CHARRON: No, I'm not in a position to answer that question. I have already discussed it with certain people. The advice of some is to never sign such a document, but it is a legal matter which would have to be studied carefully.

Co-Chairman Senator CROLL: I am afraid it is not a solution to advise him never to sign the notes.

Mr. GIRARDIN: During the three months covered by the survey, there have been transacted for automobiles, 1,867 loans amounting to \$2,193,000 over a period of three months, in approximately 100 credit unions; in these cases the 1,867 borrowers have become owners of their automobiles without being tied up by the *Caisse*s; the *Caisse* has no lien on the automobile; they are out and out owners of what they have bought. They only have to make their payments to the *Caisse*.

Mr. CHRÉTIEN: Yes, but you don't lend to everybody?

Mr. GIRARDIN: No.

Co-Chairman Senator CROLL: That was not quite the question that was being put to you, but I do not think it was in your field. Are there any other questions?

Mr. URIE: At the very beginning, Mr. Charron, you dealt with the Quebec Act, which is of considerable interest to this committee. What are the defects in that act, in your knowledge? Where is it weak and what would strengthen it?

Mr. CHARRON: As far as I am concerned, I would insist that, according to law, the down payment which is 15% be raised to 20%. Secondly, it should be paid at the time of the purchase, at the moment of signing the contract, in cash, and not in merchandise, because at the present time, the buyers have the right to pay in money and/or merchandise. But it should be forbidden to pay in merchandise, because this brings about excessive abuses.

Mr. CHRÉTIEN: If I may add my opinion, because as a lawyer, I have had to attempt on occasion, to settle this problem. This law exists of course. We have already said that it is not applied often in the Province of Quebec, particularly in the following way: for loans of less than \$800, and there is the length of repayment according to the amount, either 12, 24 or 36 months, I am thinking of a maximum number of months with a maximum rate of interest.

Mr. CHARRON: $\frac{3}{4}$ of 1%

Mr. CHRÉTIEN: These conditions exist with respect to purchases made on time.

Mr. CHARRON: Commercial.

Mr. CHRÉTIEN: Commercial; if, for instance, under provincial law, the merchant who under this law, sells a television set, remains himself, the proprietor of this television set until the last payment.

Mr. CHARRON: This is so.

Mr. CHRÉTIEN: In the Province of Quebec, we cannot mortgage furniture as you can in Ontario. This is a way for the merchant to hold on to this property until the last payment. If the individual does not fulfil his obligations, the lender, in this case the merchant, goes and picks up the merchandise from the consumer and the merchandise belongs to him.

Mr. CHARRON: It is a conditional sale.

Mr. CHRÉTIEN: Only, if the conditions in the contract are not according to the law, the penalties are clear; the salesman does not retain ownership of the object, you understand, and, at the time the balance of the payment becomes due, the debt must be paid or quite naturally the merchandise is picked up.

Mr. CHARRON: That's it.

Mr. CHRÉTIEN: That's the principle, because our furniture cannot be mortgaged.

Mr. CHARRON: Now with regard to the automobile, it should be included in the law covering purchases on time.

Mr. URIE: The reason I asked the question, was this. Obviously we cannot do anything about the Quebec Act, but I wished to ascertain whether the weaknesses were as a result of some constitutional limitation which could be fulfilled at this level. Do you feel that any of the defects in the Quebec Act could be corrected by legislation at the federal level?

Mr. CHRÉTIEN: My point is, obviously, that the interest rate will have a bearing, or could have a bearing on this legislation.

Mr. CHARRON: This is certain.

Mr. CHRÉTIEN: Obviously, at that particular time, it would be a civil matter which would bind the two parties and would, as a matter of fact,

have a direct effect on the rate. It does not concern the rate of interest, it is rather a civil matter concerning the contract. I believe that one cannot, under the circumstances, intervene because this is a provincial matter. Only, it would be wise, after the law has been adopted and the rate of interest fixed, for the provincial governments to base themselves on this interest in order to also protect the consumers from certain charges which, unfortunately, we are unable to halt under our present legislation. So, in this respect as in others, we would have to put cooperative federalism into practice.

Mr. CHARRON: Actually, buying on time in Quebec is subject to $\frac{3}{4}$ of 1% per month, calculated on the total amount of the initial credit. So, after having paid the first 15%, the sales tax is added. If you figure it out, this represents 18% in the terms of simple annual interest rates. Loan establishments who have to borrow money insist on the interest being calculated according to the method of simple annual interest. Why don't they follow the same rule when lending money? This means that if the Federal Government sets the interest rate and charges a maximum of 12% per year, consumer credit or loans could never cost more than 12% per year. The federal law would thus improve provincial legislation, which would then have to take into consideration, when planning additional charges, the federal rate of interest and charges. It is my opinion that provincial governments would then have to be invited to agree on amending their laws concerning sales on time.

Mr. CHRÉTIEN: To my way of thinking, the law fulfills the object for which it was enacted. This law was enacted to protect the seller from the insolvent consumer. Obviously, this law is respected, and the seller is protected because he remains the proprietor of the merchandise until the last payment. It was to protect the seller.

Mr. CHARRON: Against the purchaser.

Mr. CHRÉTIEN: Here, we want to protect the consumer.

Mr. CHARRON: It would have to be amended to protect the other party also.

Mr. MARCOUX: With regard to the total, when you speak of $\frac{3}{4}$ of 1% being the charges authorized by the Quebec law, is the rate of interest included?

Mr. CHRÉTIEN: Yes.

Mr. CHARRON: Precisely so.

Mr. CHRÉTIEN: The rate of interest and the costs.

Mr. CHARRON: It is a rate of $\frac{3}{4}$ of 1% which is added to the total amount of the initial credit and which is considered to be a compensation for the interest, administration costs and other charges.

Co-Chairman Senator CROLL: It is what we have been referring to as the cost of the loan. That is the term we have been using.

Mr. CHRÉTIEN: Interest and the cost of the loan.

Mr. URIE: Everything relating to the advancement of money.

Co-Chairman Senator CROLL: As there are no other questions, may I say, to you, Mr. Girardin and to you Mr. Charron, and also to you, Senator Vaillancourt, how thankful we are. You have heard the congratulations already of very knowledgeable members of the committee. There is not much more I can say except to tell you how appreciative we are of receiving the historical background of the caisses populaires, which is very important. We appreciate the pains and the trouble you took to prepare the brief and present it to us. We also note the ease and the knowledge with which you answered the questions. It gives us a sense of confidence that you know what you are doing. We have had many people before us and now we know a little about this problem ourselves. I can tell you that we are very much impressed by your presentation here today, and on behalf of the committee I thank you.

The committee adjourned.

APPENDIX "P"

BRIEF

by La Fédération de Québec des Unions régionales des Caisses populaires Desjardins to The Special Joint Committee of The Senate and House of Commons on Consumer Credit in Canada

The *Fédération de Québec des Caisses populaires Desjardins* includes at the present time, through its ten regional federated unions, 1,285 *Caisses populaires Desjardins*.

These *Caisses populaires Desjardins*, which are savings and credit co-operatives, had as of September 30, 1964, more than one million and a half members and were managing on their accounts more than one billion dollars.

There are 754 of those *Caisses* in rural communities. As of September 30, 1964, they had 415,450 members and their total assets amounted to \$219,583,537 dollars.

The 1,285 *Caisses populaires Desjardins* which are connected with the Quebec Federation have granted to their members 168,000 loans amounting to \$211,000,000 in 1963, half of these loans amounting to less than \$1,000 and the rate charged did not exceed 7%, calculated on the unpaid balance, the real cost of interest being less than 4%.

The *Caisses Populaires Desjardins* encourage their members to save, and also protect them against usury by means of loans made at a reduced rate of interest, and help them to make good use of credit.

As their founder, Alphonse Desjardins, used to say, the *Caisses populaires* try to be: *The real bank of the people, where workmen and farmers who, are honest, hardworking, sober and economical, may obtain the money they need to help them in their activities, organize a home, rid them of debts, or make necessary purchases for cash.*

CONSUMER CREDIT

ITS IMPORTANCE IN OUR ECONOMY

The growing demand for consumer goods since the last war has been a dynamic factor in the economic development of our country. Credit to consumers has largely contributed to this intensification of the demand for goods, especially durable goods, among the Canadian consumers, who, besides, spend nowadays a bigger proportion of their revenue than they did twenty-five years ago.

Social Security laws, which have contributed to increase the revenues of those who benefit from them as well as to reduce certain of their family obligations, have developed among the consumers an impression of economic and social security which prompts them to have confidence in the future by obtaining immediately, on credit, the things they wish to own.

Nowadays, consumers certainly differ in many respects from pre-war consumers. The changes which occurred in their consumer needs seem to be imputable largely to the phenomenon of industrialization and urbanization of our society, resulting from the advancement of science and technology as well as the considerable increase in their revenues. Less than one third of the population of Canada (which has increased from 12,000,000 to 19,500,000 since the last war) now lives in rural areas meanwhile the number of persons living on farms has also reduced considerably during the last quarter century.

Moreover, it is to be noted that the means of transportation and of communications as well as rural electrification have made available to rural

families the same things the urban families possess. The great modern ways of diffusion: radio, television, the press, cinema, have greatly influenced our likes, our aspirations, our needs, as well as the actions of the consumers; the differences in the consumer needs between urban and rural citizens have been reduced to the extent that there is nowadays almost an homogenization of them.

Nowadays the revenue of Canadian citizens is five times higher than it was before the last war. The personal revenue of Canadians has risen from \$4,800,000,000 to \$30,000,000,000 from 1949 to 1963. This means that they are now in a position to obtain with their revenues; taking into account the raise in prices; three times more goods and services than they did before the last "World War". The difference in the average revenue available to different social categories has been reduced during the same period, and it is even among certain kinds of the lowest revenues that the increase seems to be more noticeable.

Generally speaking, the development of mass production and the mass distribution of consumer goods, a better national distribution of revenues which have increased considerably, transportation facilities, the fact that rural communities have become closer to the cities, better popular information concerning the modern mediums of buying, which have helped to make uniform the aspirations and the needs of the consumers, have intensified among Canadians the consumer needs and have considerably changed the structure of expenses in the family budgets.

The proportion of expenses in the budget applying to food was reduced with the raise in revenues. Although there has been a decline in the proportion of families spending a relatively small part of their revenues for food, on the contrary, the part of the expenses applied to housekeeping equipment and motor cars has increased considerably. The financial means of a constantly increasing number of family housing, in the surroundings of the big urban centres where available lots are already occupied. The development of sub-urban areas where houses are partly occupied by their proprietors has increased among them the need for motor cars they use to go to work, as well as the need for housekeeping equipment and domestic appliances for their homes.

The possibility of obtaining one-family houses at prices proportioned to revenues which are higher than they were ever before, has permitted many families to live outside the limits of the big cities. Several of these families have bought a car to go to work in the city. The increased number of individual properties around the industrial cities has brought people to obtain cars and other durable goods used as housekeeping appliances in their homes. The families who are owners of their own home are more anxious than those who are tenants to buy an automatic washing machine, an electric dryer and a refrigerator. These families figure it is more economical and profitable to buy these articles to do the work at home instead of having to pay to have the work done outside as they used to do before. Instead of sending the clothes to the laundry and paying for the service, they prefer to buy a machine on the installment plan to use in their home. The payments they would have to make each month during a certain period of time on the appliances they use at home, partly replaces the disbursements they had to make previously every time they wanted to obtain the same service from outside, just as the installments they have to make on a television set partly replaces the money they used to spend to go to the movies.

The augmentation in the possession of durable goods is nothing but the expression of a better living standard which took place during the last quarter of the century. The consumers certainly have more satisfaction in paying a home than in paying a rent. A better service is to be derived from a motor car than

from the bus or tramway. Certain durable goods do more than to replace the services the families used to obtain from outside.

The Consumption has increased because of Greater Credit Opportunities:

The distribution of the mass production of goods, especially of durable goods, in growing demand on account of higher revenues and the expansion of the individual possession of homes around the big industrial centres, the progressing decentralization of which accentuates the distances between the homes and the factory or office and brings about the multiplication of motor cars, has been made easier by a group of credit institutions and by improved credit techniques.

The credit in the wholesale trade lubricates all the mechanism of our economic life and it goes deep into all phases of the business cycle. It permits some 30,000 wholesale establishments to help 200,000 stores and manufacturers in their operations. It reduces the distances between the wholesaler and retailer. It speeds up the distribution of goods and contributes to increasing the volume of business and to maintain and stimulate the production. It makes available for the merchants the goods at the time they must have them instead of the moment they could have them, and it allows them to take advantage of all sales opportunities that are offered to them.

In its turn, the credit for retail trade facilitates the distribution of goods to the consumer and contributes in a way to the improvement of the standard of living in Canada. An important factor in the production and distribution of goods and services, credit plays a more and more important part in our modern economy. As Mr. Daniel Webster puts it, "It does a thousand times more to bring wealth to humanity than all the gold mines of the world".

Augmentation of Debts to Consumer:

The debts to consumer credit in Canada have raised since the end of the war from \$500,000,000 to \$5,000,000,000. They have been multiplied by ten.

They used to absorb 5% of the personal revenue of the Canadian citizens whilst they now absorb 16% of their available personal revenue.

This economic phenomenon is certainly not particular to Canada. In fact, it has developed in a similar way in the United States, where the debts to consumers have raised from \$5,665,000,000 in 1945 to \$39,500,000,000 in 1956, and to \$65,600,000,000 in 1963. In 1945, they represented 4% of the available personal revenue of the Americans and 16% in 1963.

Such an expansion of the debts to consumer credit which is certainly imputable, in a certain way at least, to the large credit facilities offered to consumers, has caused a certain concern among those who have at heart to maintain the economic prosperity and welfare of the population.

All the economists do not agree upon the significance of the present high levels of the debts to consumer credit and upon the attitude to be adopted in front of greater credit facilities offered to consumers. Some of them think that such an expansion of credit to consumers is essential to maintain economic prosperity because they pretend that it allows mass production and mass distribution of the goods, contributes to supply more employment, brings about a better productivity, facilitates the progressive democratization of a better standard of living, as well as the improvement of personal revenue for ever increasing categories of the population.

They (the economists) are of the opinion that credit to consumers has permitted a bigger production in order to meet the growing demand *with the result that the productivity has improved sufficiently to compensate, at least partly, by reducing the cost of production per unit, the interest the consumers have to pay on their consumer debts*, without considering, they persist in saying, that a number of families have acquired a habit of saving by obliging them-

selves, so to say, to make monthly payments for their purchases made on the installment plan, and, everything taken into consideration, that the consumer credit does not oppose itself to saving because this is what keeps it going, as it is a dynamic factor in the development of the economy.

Other economists apprehend that the rapid growing of the consumer debts may cause serious economic troubles, with an economic depression eventually; the purchasing power will be exhausted and coagulated in the debts resulting in reduction of the purchases followed by an important reduction in the production which will bring unemployment and economic depression. The New York Times of February 12, 1956, mentioned that "Soviet writers have strongly expressed their conviction that such a depression did not take place (in 1955) only because of the extensive development of consumer credit in the United States, a fact which they believe has justly taken all its strength."

The main objectives of our Canadian economic policy are an appropriate rhythm of economic development, a high level of employment, the stability of prices, an adequate distribution of resources and national revenue for a better standard of living for everyone; without forgetting, of course, the less tangible objectives which are political and economic freedom, as well as social peace.

Facing these objectives, some people will ask themselves if the rapid expansion of consumer is an essential and desirable factor for their realization, or if, abandoned to the hazard of economic and social forces, without direction or control, consumer credit may prevent the realization of some of these objectives, leading us, sooner or later, to economic perturbations and social difficulties.

These questions preoccupy business men, politicians, and economists who surely want for Canada "a high level of economic activity and employment in a context of stabilized prices; and economic expansion at a maximum rhythm that may be maintained during long periods without endangering the stability of money or of the cost of living", to borrow the words of a former governor of the Bank of Canada in his annual report to the Minister of Finance.

The president of the United States in his economic report of January 1956 was asking for a serious investigation of the part played by consumer credit in the American economy, in order to know the efficient means of regularizing the function of consumer credit and its utilization by means of effective controls.

Situation of Consumer Credit in Canada.

Before talking about the problems that may raise the rapid expansion of consumer credit in Canada, it seems useful, to explain rapidly the situation of consumer credit, to examine the factors that may have influenced its evolution and the use that Canadians make of it.

The expression "consumer credit" has been used in the past to determine the credit extended to allow the payment by installments of some consumer goods, i.e. goods that lost their specific properties at the first use. Nowadays, the expression "consumer credit" applies to goods that may be characterized by the two following designations:

- (1) *non-durable goods*—the ones that must satisfy the requirements of consumers and disappear when used (e.g. food),
- (2) *durable goods*—that survive after being obtained by way of credit.

Durable goods are classified into two categories:

- (a) Those that deteriorate rather quickly and consist mostly of personal goods;
- (b) Those that are used as housekeeping equipment or in the home (electrical appliances) and those that are produced by mechanical

or electrical industries or by the automobile and other motor vehicle industries, and which may still have a commercial value after prolonged use.

It is precisely these durable goods that take the form of housekeeping equipment, those that are used in the home, such as electrical appliances and motor cars which still have a certain commercial value after having been used for some time, about which we have found out in recent years that there has been a considerable expansion of sales and purchases made under the installment plan.

The expression "credit to the consumer" was applied in the older days, mainly to non-durable goods, that is, the goods that disappeared when used; *it applies mainly nowadays, to the financing of durable goods, housekeeping equipment, electrical appliances, radio, television and motor cars which still have an appreciable commercial value after being used for some time. Consequently, the expression has become, to a certain extent, improper because it now applies mostly to facilities for the payment of durable goods, rather than consumable goods.*

Consumer credit covers short-term credit granted to individuals considered as consumers. It is not always easy to measure it with figures because the loans supposed to be for consumption, are often used partly for production purposes while loans of production, on the contrary, are also partly used for consumption purposes. The statistics on consumer credit are incomplete. Nevertheless, they have their importance.

Consumer credit excludes:

- I. Mortgage Credit: Which has some relation to consumer credit and which, in recent years has expanded considerably.
- II. Credit for upkeep and repairs;
- III. Commercial or Industrial credit;
- IV. Loans that are secured by obligations, shares or life insurance policies;
- V. Loans from individuals, because of the difficulty in obtaining statistics;
- VI. Amounts owed to professionals such as doctors, lawyers etc., for services;

Consumer Credit in Canada covers:

1. The Consumers' current accounts entered in the books of the retail merchants,
2. The sale of merchandise or papers on the instalment plan, held by the retail merchants and finance companies,
3. Personal loans granted by the banks, finance companies, authorized money lenders, Caisses populaires, credit unions and insurance companies.

SEE CHART PAGE 9

The different forms or categories of credit, as they have all, without exception, considerably developed since the end of the last war, are far from having reached the same degree of expansion. Moreover, each of these categories or forms of credit has a tendency to respond to different requirements and to have varied characteristics. Maybe it is not useless to explain them distinctly before studying consumer credit as a whole.

Current Accounts

Current accounts are more a convenience than a method of borrowing. The purchases made during a month are debited and considered as having

been made the last day of the month; as a rule, a statement of account is then sent to the customer in the next few days and the customer must pay the balance due within the following thirty days. The consumers who have a current account are considered as very good clients and are not generally speaking called upon to pay interest and maintenance costs.

Budgetary Accounts

Another kind of current account is the budgetary account, according to which the limit of credit is fixed by the customer himself according to the monthly payment that he can reasonably, or is willing, to make. This limit of credit by the customer is generally established at six times the amount of his monthly payment. This way, the customer who can reasonably pay regularly \$10 a month is entitled, after investigation, to an open credit of \$60; if he can pay \$15 a month he will be entitled to \$90 credit; if he can pay \$20, the credit limit will be \$120.00.

Nowadays, there are many stores which, following a policy popular in the United States, have extended the credit limit, after investigation, to ten or twelve times the monthly amount the client can reasonably pay.

The budgetary account is permanent which means that the reimbursement paid gives the right to a credit for the same amount. On this account, charges of $1\frac{1}{2}\%$ or more are to be made on the unpaid balance at the end of each month.

Current and budgetary accounts are generally opened for perishable goods or goods that will last a short time, such as clothing, shoes, interior decorations, goods sold by the yard, etc.

Several stores, relying on information obtained from the credit bureaus about clients, encourage the use of current and budgetary accounts. Through this method of accommodation, they keep their customers, avoid reduction in prices when they do not augment same by 10 or 15%, lessen or evade competition, and encourage their customers to buy more. Certain big stores obtain such good results from this method of financing purchases that they do not hesitate in asking their customers to pay charges which represent up to 15% interest, if not more. Too many people are astonished by the subtlety of the small payments to the extent that they do not care much about the charges they have to pay; they only look at the amount payable each month and at the time length of the contract. In an article published in *Fortune* magazine on the subject of the budgetary account that the author called the opium of the middle classes, the editor, Mr. William Whyte, Jr., wrote that certain department stores make more profit with the interest and charges they collect on their sales than with the goods themselves.

Nevertheless, the increase of the debts deriving from this method of financing purchases in current accounts has been the smallest of all the large categories of consumer credit. The national census of 1941 has established the debts in current accounts appearing in the books of the retailers as \$157,000,000. In 1956, this amount reached \$332,000,000 and in 1963, \$413,000,000.

Sales on the instalment plan.

The kind of consumer credit that has had the biggest expansion in the last quarter century is that of the sales on the instalment plan. They cover principally durable consumer goods, especially motor cars. To show the importance of these sales, here is the way consumer credit is divided in its principal forms, compared to the total sales, say for the year 1956.

CREDIT TO CONSUMER TO BE RECOVERED

millions of dollars

End of Year	Retailers Other Retailers		Consumer Loan Companies										Life Insur. Co's.	Savings Banks of Quebec	Total
	Large Stores	Credit Current Account ⁽²⁾	Credit Reimburse-able by spread out payments	Financing Company spread out payments	Credit Reimburse-able by spread out payments	Monetary Loans	Chartered Banks		Credit Coop. and Caisses Populaires	Total					
1938	*	*	*	46	—	258	64	64	75	154	54	228	—	607	
1939	*	*	*	38	—	250	77	77	85	173	63	219	—	592	
1940	*	*	*	46	—	270	93	93	90	224	72	210	—	616	
1941	*	*	*	49	—	240	114	114	92	204	76	200	—	581	
1942	*	*	*	17	—	170	143	143	86	242	94	189	—	462	
1943	*	*	*	7	—	136	173	173	87	308	129	173	—	403	
1944	*	*	*	6	—	141	209	215	100	351	151	159	—	406	
1945	*	*	*	8	—	161	273	279	128	441	174	152	—	449	
1946	*	*	*	24	—	201	343	347	186	435	226	150	—	561	
1947	*	*	*	48	—	340	347	362	240	421	258	152	—	780	
1948	*	*	*	71	—	335 ⁽¹⁾	382	401	154	435	226	158	—	836 ⁽¹⁾	
1949	*	*	*	116	—	389	446	484	173	421	258	167	—	985	
1950	*	*	*	202	—	454	504	549	224	435	226	178	—	1,223	
1951	78	232	96	186	—	406	504	549	204	435	226	199	—	1,185	
1952	141	248	163	373	—	552	599	635	242	435	226	213	2	1,624	
1953	167	274	183	492	3	624	662	714	308	435	226	225	3	1,981	
1954	186	293	208	599	6	685	714	771	351	435	226	240	2	2,136	
1955	227	314	230	771	6	771	824	858	441	435	226	250	2	2,516	
1956	244	332	248	858	13	824	858	882	435	421	258	270	3	2,870	
1957	262	325	271	780	15	858	882	896	421	435	258	295	4	2,978	
1958	282	345	266	806	19	896	955	986	401	553	282	305	6	3,249	
1959	314	367	274	866	38	955	1,003	1,033	484	533	320	323	6	3,690	
1960	368	368	267	828	45	1,003	1,053	1,083	549	587	397	344	6	4,020	
1961	401	382	270	765	35	1,053	1,083	1,113	594	857	433	358	9	4,316	
1962	427	392	269	801	52	1,083	1,113	1,143	1,030	1,030	433	372	13	4,746	
1963	456	413	272	873	55	1,141	1,141	1,171	1,432	1,432	640 ⁽³⁾	385	14	5,292	

(1) The figures for the years prior to 1938 are not strictly comparable on account of a new classification of retailers concerning the credit granted to farmers or other dealers. This new classification resulted in a decrease of about 20% of the credit figure granted by the retailers previously indicated for 1948.

(2) Covers credit cards from petroleum companies.

(3) Loans from credit cooperatives and Caisses Populaires for the year 1963 have been estimated in assuming the same percentage of increase as for the previous years.

* Deduction not available.

The total sales of commercial establishments in Canada, in 1956 were \$14,088,600,000. The cash sales totaled \$9,014,100,000—i.e. 64%; the sales on the instalment plan totaled \$1,827,600,000—i.e. 13% of the total sales; and the current accounts in their different forms totaled \$3,246,000,000—i.e. 23% of the total sales. In this amount of \$1,827,600,000 for the sales on the instalment plan is included the first payment made at the time of the purchase. In 1956, the financing of the sales on the instalment plan reached the amount of \$1,248,347,000. In other words, the financing companies, in 1956, have bought contracts of sales on the instalment plans in the retail business, for an amount of \$1,248,347,000, of which \$924,687,000 are for consumer goods and \$323,660,000 for goods used in trade and industry. Sales on the instalment plan in the retail business in 1956, represented 13% of the retail sales, and the sales on the instalment plan for motor cars absorbed 59.7% of the total amount of the sales made on the instalment plan or 59.7% of the amount of contracts for purchases on the instalment plan sold to financing companies.

The sales on the instalment plan made in 1956 covered mostly automobiles (59.7%), then commercial motor vehicles (13.2%), electrical appliances and others (4.6%), television sets (4.4%), etc. Consequently 72.9% of the sales on the instalment plan in the retail business in 1956 were for automobiles and other motor vehicles. The actual consumer debts in Canada resulting from purchases made on the instalment plan exceed one billion dollars.

For the sales on the instalment plan, credit takes the form of a conditional sale comprising the clause according to which the article is to be returned to the seller in case of default in payment. The sold good remains the property of the merchant or trader as long as the total price, including financing costs, has not been paid or reimbursed.

The contract for a sale on the instalment plan is a binding contract, a sort of written agreement where the conditions of sale are described. In the province of Quebec, our commercial law is not the same as in the other Canadian provinces where the citizens may mortgage their personal property. Our merchants or traders have nevertheless the advantage of an equal protection in the binding contract or in the conditional sale. To be exact, the contract of the conditional sale does not create a bond; it does only suspend the transmission or the passage of the property title from the seller to the buyer until the buyer of the goods has filled certain conditions specified in the contract, the most important part of which is certainly the whole payment of the unpaid balance of the purchase price of the goods. The binding contract leaves to the seller the property of the sold goods up to the time the purchase price has been paid entirely, and this binding contract guarantees to the seller the right to take back the sold article, if the payment is not made by the buyer or by the buyer's creditor who has an interest in the goods. The only restriction there is in the right of the seller to take back the sold article is the obligation for the seller to keep the article during a period of 20 days after it has been returned to him; the debtor or a creditor of the latter who has an interest in the goods, may, in the course of that period, pay the balance due with the costs incurred and become proprietor of the purchased article by following the ordinary rules of procedure prescribed to this effect.

The initial payment must be of at least 15% of the price of the sale on the instalment plan. This initial payment may be made in ordinary currency or by dation in payment of personal property or also in cash and personal property. The initial payment is increased by the provincial sales tax. The deferred payments must be consecutive and equal with the exception of course of the last payment that may be inferior and which completes the reimbursement of the sale price.

The financing and compensation costs for the risks and eventual losses on the sales made on the instalment plan must not exceed $\frac{3}{4}$ of 1% per month,

i.e. 9% per year. The Civil Code of Quebec provides, in Section 1561d, that the sale price in the instalment plan consists in the cash regular sale price increased in a proportion not exceeding $\frac{3}{4}$ of 1% of the total deferred payments for each month of the term; and this increase must take the place of interest and of compensation for the risks, losses, and supplementary administration costs that the sale on the instalment plan may cause to the seller.

The provisions of the law in the province of Quebec concerning the sales on the instalment plan apply only in the case of retail commercial sales and only on sales not exceeding \$800 in each case. The same law contains a whole list of merchandise and machines or instruments that are not included. The province of Quebec, is, to our knowledge, the only Canadian province which has fixed limits to the cost of credit for sales on these instalment plans by means of the law adopted in 1947.

Personal loans

Another kind or category of consumer credit is the one that comprises the monetary personal loans granted by the banks, small loan companies, authorized money lenders, *Caisses populaires*, credit unions and insurance companies.

The personal monetary loans meant for consumers purposes have expanded considerably since the end of the war, if we consider the debts that citizens have to pay in this respect. The debts resulting from personal loans raised from \$160,000,000 in 1944 to $1\frac{1}{4}$ billion dollars in 1956 and to 3 billion dollars in 1963.

Periods of development of consumer credit

A study of statistics establishing the situation of consumer credit in Canada since the end of the great economic depression of the years 1929-38 up to now shows five distinct periods.

The first period covers the years 1938 to 1940 inclusive. It came immediately before the war, the beginning of which it indicates.

The second period spreading from 1941 to 1945 is the period of wartime regulation.

The third period, that of 1946 to 1950 is the period of post-war rehabilitation.

The fourth period covering the Korean War in 1951 is another period of regulation and restriction.

Finally, the fifth period is the one that has prevailed since the abolition of controls on consumer credit.

A study of these diverse phases which consumer credit in Canada has gone through, does not fail to give us useful indications for the study of the problems which the rapid expansion of consumer debts may raise up, and of the application of measures to be taken to settle them. The period from 1938-40 suggests nothing important; consumer debts have remained unchanged. However, we see the signs of a tendency towards an increase in consumer debts in 1940, when the war made the economy come out of its lethargy of the years 1929 to 1939.

The retail merchants under the form of current accounts and of sales on the instalment plan made about two thirds of consumer credit; at least at the end of this period they held two thirds of the consumer debts. The current accounts represented at least 60% of the credit granted by the retailers and the sales on the instalment plan applied almost totally to durable goods, other than the automobiles and they were made by department stores as well as domestic appliance and furniture stores. From 75 to 80 finance companies were then in operation and were financing one motor car out of three. Their Accounts Receivable represented 11% of the consumer debts. The chartered banks were making 75% of the personal loans to consumers.

The small loan companies and the authorized money lenders, operating under the federal law on small loans, have loaned a good proportion of the other 25% with funds borrowed from the banks, mother companies established in the United States, and from the public which buys their notes and all their obligations.

No specific government control was made on consumer credit in the course of the period 1938-40. The only legal regulations in force concerned the protection of consumers against usurious rates of interest. The lenders of an amount of \$500 or less, whose total charges and taxes exceeded a real interest of 12% yearly had to obtain an authorization from the Canadian Government to operate in order to conform with the Federal Law on small loans; and they had to make a report of their operations to the Federal Superintendent of Insurance. They could not charge a rate of interest exceeding 2% per month on the unpaid balance for periods of fifteen months or less.

As for the chartered banks, they were not authorized to charge a rate of interest of more than 7% per year. This maximum rate was reduced to 6% at a time of the revision of the law on the chartered banks, in 1944. The Canadian Bank of Commerce has been, to our knowledge, the first chartered bank to organize and operate a service of personal loans for sales on the instalment plan bearing an interest of 6% with deduction of the interest on the loaned amount when made. The interest calculated on the total amount of the loan for its duration and not on the unpaid balance at the end of the month is equal to nearly 12%.

The period 1941-45 showed a decrease in the current accounts and in the sales on the instalment plan made by the retailers: In fact, the debt at the consumer level among the retailers had been reduced from two hundred and forty million dollars, at the end of 1941, to \$161,000,000, at the end of 1945. The debt owing the finance companies had been reduced from \$49,000,000 to \$8,000,000 during the same period 1941-45.

The balance of the loans of the banks, small loans companies and other lending institutions to consumers was reduced from \$300,000,000 in 1941, to \$280,000,000 in 1945, with the result that the total consumer debt which was established at \$580,000,000 in 1941 was reduced to \$400,000,000 in 1943, when it increased again, this time under the impulsion of personal loans, to \$450,000,000 at the end of 1945 and to more than five billion dollars in 1964.

The specific controls on consumer credit which were introduced during the war as ways of implementing the economic policy of the Canadian Government, had attained their objectives.

As early as 1941, hardly two years after Canada entered the conflict, the Canadian Government in fact entrusted the Wartime Prices and Trade Board with the jurisdiction over the consumer credit and purchases on the instalment plan. "The first objective of the rules of the credit to consumers, it is said in the report of the said Board, which was published in May 1943, was to reduce the pressure on the price levels by limiting the volume of credit available. In the meantime, this had the effect of conserving labour and the most important materials by reducing the consumer demand, as well as the costs resulting from bad debts, and the cost of interest and bookkeeping, by reducing the volume of debt with respect to individuals and by unceasingly augmenting the demand for industrial products for the future, when labour and materials would again be available to civilians. In rule No. 64, concerning consumer credit (in effect October 14, 1941), appeared a long list of articles often purchased on the instalment plan and for which the merchant must ask for a first minimum payment of 33 $\frac{1}{3}$ % (with a minimum of \$10.00) and the balance payable in twelve months".

The control of consumer credit applied in the first place to sales on the instalment plan, but to be sure there would be no means of evasion and that

the control would be efficient, the proper authorities extended it to all categories or forms of consumer credit.

In short, at the time of purchase one had to receive a cash payment of one-third of the sale price and a maximum period of payment varying from 6 to 15 months, according to the nature of the purchased articles and the importance of the amount to be reimbursed.

The controls proved to be efficient. "The cash sales, says the report, progressively replaced sales on credit, and the report attributes the fact to Rule 64 on consumer credit". There was a rapid and noticeable reduction in accounts receivable of finance companies; the debts resulting from the credit to instalment by finance companies were reduced from \$46,000,000 in 1940 to \$6,000,000 by the end of 1944. The reason for this was the almost total disappearance from the market of new motor cars for civilian use, on account of wartime requirements.

Purchases on the instalment plan were gradually replaced by cash purchases apparently on account of the considerable increase in personal revenues which owing to wartime economies increased from \$4,808,000,000 to \$8,430,000,000 between 1941 and 1945, and also on account of the available quantities of goods, especially durable goods, which are the most important part of purchases made on the instalment plan.

As to the personal loans which increased during the same period, 1941-45, the chartered banks kept them at about the same level as they were during the course of the previous years. On the other hand, the small loan companies made more loans. During the same period 1941-45, the *Caisses populaires* and credit unions enjoyed considerable development. However, we have no statistics by which to establish the participation of the *Caisses populaires* and credit unions in relation to consumer credit during the same period.

The post-war period of 1946-50 was the rehabilitation period. The Canadian government had kept the control with a view to balancing, as much as possible, the demand for durable goods with a supply that was necessarily limited. The controls were eased in order to help the rehabilitation to civilian life of the members of the armed forces returning home. With the gradual transition from wartime to peacetime economy, durable goods reappeared little by little and in relatively short time, people purchased more and more on the instalment plan. This fact is revealed by official statistics on consumer credit which show the gradual increase of credit by instalment buying and of the current accounts among the retailers, as well as of personal loans.

In addition, it is to be noted that in 1946, motor cars having been in use for more than 5 years were in the proportion of 90%. We do remember that after the war there was a considerable demand for new cars and electric appliances.

The demand for consumer goods, more particularly for durable goods, had increased considerably on account of full employment and the accumulation, during the years of war, of savings which went from \$3,313,000,000 on January 1st, 1940 to \$10,858,000,000 on December 31st, 1945. No wonder personal expenses for the purchase of durable goods increased from \$590,000,000 in 1946 to \$1,343,000,000 in 1950. During the years 1947-50, inclusive, 830,000 new cars, 750,000 refrigerators and 1,000,000 electric washing machines were sold. The finance companies did very good business. The debt in their favour increased from \$8,000,000 to \$202,000,000, from 1945 to December 31, 1950. In addition, there was a marked increase of the debts to consumers among the retailers; they increased from \$161,000,000 to \$454,000,000 from 1945 to December 31, 1950. Despite the great accumulation of savings during the war, debts resulting from personal loans for consumer credit also increased from \$335,000,000 to \$567,000,000 from 1946 to 1950.

In addition, it is to be noted that in 1946, personal savings amounted only to \$988,000,000 as compared with \$1,619,000,000. In 1945, at the end of the war, and in 1947, personal savings amounted only to \$426,000,000, i.e. less than half the amount of 1946, when the personal revenue available continued to grow and increased from \$8,430,000,000 to \$8,965,000,000, from 1945 to 1946, and to \$9,599,000,000, in 1947. Consumer goods, not being sufficient to meet the growing demand with the accumulation of wartime savings, the index of prices to consumption which was established at 75 in 1945, increased to 77.5 in 1946, then it jumped to 84.8 in 1947 and to 97 in 1948 to reach 100 in 1950.

The prolongation of the Wartime Price controls which had been found efficient, would probably have prevented that depreciation of 25% of the purchasing power of savings.

In 1951, with the Korean War, the controls and restrictions reappeared. The Canadian Government foresaw the great possibility that the disbursements it would be called upon to make to prepare its defence, would contribute to increase the purchasing power of the Canadians. It soon found out, on the contrary, that it would be obliged to reduce consumer goods available to civilians by keeping a part for the armed forces.

It also foresaw that the production of consumer goods would be reduced to make room for the production of armament, ammunition, etc. Taking also undoubtedly into consideration the attitude of the consumers who had spent so much during recent years, wishing apparently to forget the wartime hardships, the Canadian Government reintroduced the controls, and, this time, more severely: the down payment for purchasing motor cars was increased from 33 $\frac{1}{3}$ % to 50% of the purchase price and the period of repayment of the balance was limited to 12 months.

Moreover, the Canadian Government increased the prices by applying customs or excise taxes on consumer goods. For its part, the Bank of Canada asked the chartered banks to reduce their credit advances for non-essential needs and not to loan more to finance companies for retail trade.

These measures prove to be efficient. The debt to consumers was decreased from \$1,223,000,000 to \$1,185,000,000 in the course of 1951.

In January 1952, the restrictions on the financing of motor cars were reduced. In May 1952, the controls were abolished. Since then, consumer credit has increased considerably from one year to another. On December 31, 1952, it amounted to \$1,385,000,000, on December 31, 1956, it totaled \$2,476,000,000 and on December 31, 1963, it was more than 5 $\frac{1}{4}$ billion dollars.

Although, in Canada, consumer credit has shown considerable development during the years 1952-56, the index of prices for consumption has remained almost unchanged during the same period. In 1952, the index of prices was 116.5; in 1953, 115.2; in 1954, 116.2; in 1955, 116.4 and in 1956, it went up to 118.1.

The personal expenditures for durable goods went from \$1,588,000,000 to \$9,061,000,000, from 1952 to 1956; and in the case of non-durable goods, from \$8,374,000,000 to \$10,513,000,000, from 1952 to 1956. During the same period, the gross national production established at the market price increased from \$23,235,000,000 to \$29,866,000,000 and the available personal revenue, from \$15,891,000,000 to \$19,986,000,000. The personal savings increased to \$1,525,000,000 in 1952 and to \$1,588,000,000 in 1953, and decreased to \$891,000,000 in 1954, then they increased to \$1,071,000,000 in 1955, and to \$1,430,000,000 in 1956 whilst the population of Canada during the same years, 1952-56, increased from 14,459,000 to 16,081,000.

The prices to consumers had consequently remained unchanged during that period when, on the other hand (with the exception of 1954 during which

a little slowing down of our economic development took place), there was an increase of the Canadian population, national production, personal revenues and savings, personal expenses for consumer goods and debts of consumers.

Consumer credit may contribute to increase the pressure on prices by allowing the consumers to buy more nowadays, reckoning upon their purchasing power of tomorrow. On the other hand, debts of consumers may remedy, in a certain way, that pressure on prices, which means that the regular payments people have to make to get rid of their debts, reduce at the same time their purchasing power; this part extracted from the revenue of the citizens may in certain economic circumstances reduce the price increase. Nevertheless, of course, the reimbursements made on consumer loans may again be loaned for consumer credit.

Consumer credit cannot suddenly be raised in a short period of time; it goes up gradually and the payments increase or multiply according to the way credit expands.

In 1956, consumer debts represented 12.4% of the available personal revenue of the Canadians; and this meant, consequently, that there was an appreciable reduction of the purchasing power which contributed to partly compensate the pressure made on the prices by purchases on credit which are affected, but only in part, because the loans and credits to consumers have during these years exceeded considerably the reimbursements made since the balance due on credit to consumers increased from \$1,624,000,000 to \$2,870,000,000 during the same period 1952-56.

This surplus of loans and credit to consumers over the cashed reimbursements was of a nature to augment the pressure of the demand over the prices of consumer goods and may have contributed to the increase of prices for these goods.

The total consumer debt increased by \$380,000,000 in 1955 and by \$354,000,000 in 1956, i.e. an increase of \$734,000,000 in the course of two years, and the biggest development took place in a case of credit by instalment.

"In the course of 1956", said the Governor of the Bank of Canada in his last report (to the Canadian Minister of Finance) concerning the operations of the Bank of Canada, "it has once more become obvious that the volume of consumer credit, principally the credit granted for purchases on the instalment plan, has grown more rapidly than the other sources of credit, such as ordinary loans from banks, and that it continued to grow as rapidly during the next six months, after the banking credit had more or less come back to a permanent level."

The Bank had negotiations with the representatives of the principal instalment loan companies, in order to find out if the directors of these institutions could not of their own accord, make an agreement between themselves, in order to prevent any other importance increase in the volume of this sort of credit. It happened that we could not bring the interested parties to accept this idea. It would seem that some of the companies have themselves restricted the conditions of loans. These conditions had been made much easier, particularly for the financing of automobile purchases where the average additional payment, calculated as a percentage of the purchase price, had decreased progressively in 1954, 1955, and 1956, and the average delay given to pay the balance of the purchase price had increased.

The Bank has also started official negotiations with the representatives of the principal department and chain stores which practice sales on credit for durable consumer goods, while many of them finance their own sales, although they also depend, occasionally, on funds advanced by instalment loan companies.

These representatives have expressed the opinion that the conditions of credit have never been softened in any way in their business; yet no agreement has been reached to avoid another increase in a volume of credit granted to consumers. Before the meeting the large department stores had already agreed between them to stop the practice of selling products without any initial payment. In the circumstances, this was considered a definitely practical measure.

In 1956, the banks did not extend their limit of credit to finance companies and to retailers who offered financing service. At about the end of last year, the smallest finance companies and stores of less importance, the majority of which have no other outside financial resources than the banking credit, had in fact borrowed from the banks up to the established limit and had reached their own limit of loaning capacity. The larger finance companies and the big stores, which are in a position to obtain money on the market by selling short term notes and bonds, do not have to suffer so much from restrictions applied on banking credit. In certain cases, these companies are branches of large foreign enterprises from which they obtain money. In the course of our official negotiations with these organizations, we wanted to find out if they would accept, by means of a mutual agreement, to willingly get rid of what would seem to favour the big enterprises to the detriment of the small ones. As we previously said, at the end of the year banks took the necessary measures to stop the increase in the balance of their loans to the big finance companies.

"Canada is still developing. It needs enormous capital to meet the demands for investment. We have to achieve the balance in savings and investments. Now, we realize that savings do not progress at the same speed of development as the gross national production and that they are not sufficient to meet the growing demand of savings funds required for investment, although savings have increased more rapidly than personal revenue since the middle of 1955".

"This is not another anomaly," declared the Governor of the Bank of Canada in the 1956 report, "to apply a growing amount of saving to consumer financing at a moment where all savings that may be realized are necessary in order to live up to the program of capital expenditures and augment at the same time the manpower production." The total increase of consumer credit in 1956 had not been as considerable as in 1955 because the chartered banks, in 1956, reduced the loans of this nature made directly to individuals, while, in 1955, the personal loans for consumer purposes had considerably increased. As shown in the enclosed chart indicating the situation of consumer credit in Canada, the other forms of consumer credit increased considerably and progressively and, in 1956, the increase was mainly noticeable amongst the finance companies for instalment loans as well as amongst the companies for loans to individuals.

The finance companies whose operations are, so to say, of a banking nature, are not handicapped in their activities by changes in the monetary situation. They can obtain funds by means of short term sale of articles on the monetary market or on the market of values, paying to do so the rate of interest required by the competition because the high rates they charge do not seem to stop the consumer from borrowing. Banks cannot charge more than 6% interest on the loans they grant. Certain companies are branches of important foreign corporations and they can obtain funds directly. The finance companies do not have to maintain monetary reserves and they are not subject to regulation like the banks, insurance companies and some other investment institutions. During periods of inflation, the finance companies, which are mostly interested in making a profit, are inclined to render credit "more easily"; they ask for lower initial payments and grant longer periods for repayment. Such was the case in 1955 and 1956 with respect to the financing of automobiles. In encouraging more spending and at the same time the rapid spreading of what may be called

"savings depletion" among a large part of the population, this increase of consumer credit becomes the cause of an increase of the debts of consumers and the necessity of reimbursing such accrued loans may eventually coincide with a period of economic regression which will follow this surge of prosperity aggravating the present economic situation.

Although consumer credit may be a useful contribution to the modern trade, the sharp fluctuation in the volume of such credit may have the effect of making it unbalanced which is contrary to the stabilizing effect of a regulated fiscal and monetary system.

One may wonder if consumer credit, the excessive or too rapid development of which may result in unbalancing the economy or aggravating the economic situation at a moment of economic regression, on account of immobilisation of an important portion of the purchasing power of savings, consumer credit could not advantageously be regularized and integrated in the fiscal and monetary system.

Nowadays, consumer credit is considered by the economists as a strategic element in the analysis of the economic situation. It is certainly one of the many complicated factors influencing the economic activity of the country.

The net change in the volume of consumer credit appears to be a good indication of the contribution of the credit to consumers to the monetary forces affecting the economic activity and the pressure on prices. While discussing this problem, is it really possible to dissociate consumer credit from the monetary policy? Can't we say that the restrictions on consumer credit that the Canadian Government has adopted during the austerity periods of 1939-45 as well as during the Korean War in 1951, were an integral part of the monetary and fiscal policy which included among other measures, higher taxes on durable goods, an increase in personal income tax and, more particularly during the Korean War, a more severe control over the distribution of credit.

Government authorities, no doubt worrying over the rapid development of consumer debt, continued, through the intervention of the Bank of Canada, the policy of control over credit not only by means of interest and discount and other banking measures, but also by using the method of persuasion by which they were trying to explain to banking institutions, finance, and small loan companies, that they would in the actual economic circumstances, adopt such and such a policy of credit. Facts tend to indicate, however, that the success obtained up to now by this method of persuasion has not brought a full reward for the efforts made by the proper authorities if we consider the context of the declaration of the then Governor of the Bank of Canada, who referred to Canadian institutions of credit that were following a policy of expansion of credit to consumers in economic circumstances where they should not have done so in the interest of the stability of prices as well as the economic progress of our country.

According to Mr. William McD. Martin, President of the Board of Governors of the Federal Reserve System, who testified before the American subcommittee on general credit control, the expansion of credit to consumers adds directly to the development of banking credit and to the currency in circulation. An important part of consumer credit is financed either directly or indirectly by the banks. The expansion and contraction of the consumer debt constitutes an influential factor in the fluctuations of banking credit and in monetary circulation. In a way consumer credit is more directly inflationist than the kinds of credit used to finance the production of such consumer goods.

Certain economists are of the opinion that selective controls should be placed on certain economic situations at least not only on consumer credit, but also on real estate credit. The general restrictions on credit and the increase of the rate of interest do not appear sufficient; they do not have a specific influence upon the demands for borrowings; producers and consumers are not

very much influenced by the rate of interest, "If it is true," wrote Mr. Robert S. Shay, Professor at the University of Maine, in May, 1953, in a *Journal of Finance*, "that the production credit will have to support the shocks of higher rates of interest to fight against inflation while consumer credit will be slightly affected; the use of selective instruments of control over the consumer credit and over real estate credit could establish a better equality of treatment in general credit policy.

Consumer credit may contribute to bring inflation in certain economic situations. In an economy of full employment the increase of consumer credit may result in the inflation of prices.

Finance companies try to gain the confidence of the people by pretending that consumer credit contributes to increased production, revenues, and the demand for consumer goods. This is admitting that consumer credit may in certain economic situations contribute to the inflation of prices if it increases the revenues and also if it increases the demand for consumer goods. In times of inflation, they should bring their contribution to the general policy of non-expansion of credit so as to prevent the intensification of the pressure on prices.

Consumer Credit on the Personal and Family Level

The advantages of consumer credit should not make anyone forget the disadvantages resulting either from its misuse and the subsequent excessive cost thereof. How many citizens live without any financial security on account of the misuse they make of consumer credit. Too many consumers don't know how to limit their desires nor resist the attraction of many forms of advertising that make them desire the unnecessary and they finally accept as living beyond their means as normal and accept financial engagements which go far beyond their capabilities of repayment.

This tendency to go into debt in order to obtain immediately that which is not essential is certainly not found only in Canada and in the United States but also exists in Europe. A few years ago in *Le Courrier de Geneve* (Geneva Courier) one could read: The number is constantly growing of those who commit all their liquid assets and mortgage their belongings in many ways, even if they have to eat potatoes and sausages only.

Under the impulsion of commercial publicity, consumers become little by little the slaves of so many needs of numerous requirements and many of them try by all means, often costly, to obtain the satisfaction of their desires without considering the future. The wife will sometimes have to accept going out of her home in order to add more income to that of her husband who cannot make ends meet. In many cases happiness and peace in the home are lost because of heavy debts imputable to thoughtless purchases on credit. Too many facilities to obtain consumer credit lead many consumers towards credit abuses that are the cause of misunderstanding or dispute in too many homes. More than anyone else, the social workers are in a position to find that out day after day. Unfortunately, too many children will suffer in a dramatic way on account of this situation.

Too many people forget that purchases on instalment commit future, and as yet, unearned income.

The salary that they will receive is already committed in payments to be made on unpaid purchases.

Purchases on credit or on instalment may eventually bring unfortunate situations if the citizens abuse of them. It must be considered that sums paid on account to reduce their debts resulting from purchases on instalment represent a reduction on the available revenue for other expenses and the risk is so great that the available revenue deriving from the salary, after such a reduction, becomes insufficient for the essential living expenses. Moreover,

borrowings and purchases on credit or on instalment for consumption purposes are made at high rates of interest, and the people who do that are generally those who are not in a position to do it. For example: Someone needs \$300 to buy certain merchandise; he borrows at a rate of interest of 2% per month, i.e. 24% per annum. He has to reimburse \$15.86 per month and at the end of 24 months, he has reimbursed \$380.64 of which \$80.64 represents interest. If he had made savings by depositing at his *Caisses Populaires* \$3 a week, i.e. \$13 month, after 24 months by receiving an interest of 3% on his deposits capitalized every 6 months, he would have \$320.80.

Let us suppose that he wants to buy the same merchandise valued at \$300, as he has already saved the amount and can pay cash, he might have the advantage of reduction of 10%, i.e. \$30. The article bought would then cost him \$270 and he would still have \$50.80 in his savings account and he could use this money to buy something else. Savings have the effect of increasing the purchasing power of the consumer and at the same time to make him rationalize his purchases, and to use more judgment in the utilization of his revenue.

If the dealers were required by law to demand in cash, say 20% down payment of the goods they buy, (not trade in merchandise) the consumer would then be required to buy according to their means, and to make a better choice that would conform with their income; they would be so to say obliged to put aside every week, a few dollars from their salary in order to obtain to-morrow the things they really need; they would this way acquire the habit of saving, they would learn the value of money and to think before spending it, they would in the first place buy only the necessities, avoid commitments exceeding their capacity of payment; and, living according to their means, they would have no worries that bring unhappiness to those who cannot resist the pressure of advertising as well as their insatiable desires.

All credit and instalment sales, as well as their financing, should be subject to regulations that would require a substantial down-payment at the time of purchase, and the declaration in the contracts of the regular cash price of sales on credit and of the percentage in simple interest, established on a monthly or annual basis of the total cost of the credit granted.

The *Caisses Populaires Desjardins* are protecting their members by way of sensible credit. The interest rates are not high. In the province of Quebec, the laws on savings and on credit that rule the *Caisses Populaires Desjardins* and all other saving and credit cooperatives, impose no limit on the interest that the *Caisses Populaires* may charge to their borrowers. On their loans, they charge rates that vary between 6 and 7% per annum, but the actual interest paid, being established on the unpaid balance of the borrowing is reduced to less than \$4.00 for the sum of each \$100. borrowed.

This is the reason why the *Caisses Populaires Desjardins* are asking themselves if the rates charged by the finance and small loan companies who charge rates of interest as high as 24% per annum, and sometimes more, are reasonable.

They are happy that in the interest of the consumers, a special joint committee of the Senate and of the House of Commons is seriously studying this question of consumer credit and they are confident in the adoption of a law establishing maximum reasonable rates of interest on all consumer loans, in whatever form that will contain the formal obligation to clearly specify in all loan or credit contracts the amount of the loan or of the credit granted, the amount of interest and charges, i.e. the cost of the total credit which will have to be calculated and paid on the unpaid balance and not on the initial amount and what represents, expressed in percentage, of the loan or of the total credit granted the real cost (the interest and all cost of financing) of the credit, expressed in simple interest either on a monthly basis or on the annual

basis so that the consumers will know exactly the situation concerning the real cost of their borrowing or of the credit granted to them, so that they may be perfectly aware of the condition of their commitments and make the necessary comparisons between the rates of various types of credit institutions.

The consumers have the right to know exactly what they have to pay when they purchase something, either cash or on credit, in whatever form, or when they borrow money. And in order that they may be well informed and in a position to compare the interest rates and other costs payable, it is necessary that the interest and costs be added and those which represent the cost of the loan or of the credit, be clearly stated to them in dollars and cents in the contracts and expressed in percentage in relation to the total amount of the loan or credit charged on the purchase. It is urgent that justice illuminates forever the confusion that exists in this question of rates of interest and of often exorbitant charges that consumers pay.

The difficulties certain money lenders have in establishing clearly the interest and cost of financing in their contracts, are certainly not impossible to settle. They are one reason among many others proving the urgent necessity of adopting a law to protect the consumers. Such a law may forbid the use of rapid calculation tables invented by mathematicians and actuaries and that will be approved by the authorities which would be responsible for the application of the law.

Such a law will also have to cover commercial advertising which often misleads the consumers so far as interest and financing cost are concerned. The money lenders and the dealers will be required to clearly indicate in their leaflets and advertising, interest and other financial costs according to the abovementioned method so that the consumers may understand them and avoid being misled. For instance, in order to make myself clear, the following method too often used will be abandoned: our conditions of credit: \$100., of merchandise: charge \$13.75, monthly payment \$8.00. The prospective buyer will know by reading the advertisement that the charge of \$13.75 expresses an annual simple rate of interest of nearly 22% and not (as too many consumers believe it) of 13.75% interest per annum.

If the consumers have a right to know the quality and the price of the goods or merchandise that are offered to them, why shouldn't they have the same right when they buy credit, rent money, which is a kind of merchandise in commercial economy? Is it not true that large stores are operating a double business: that of merchandises and that of the credit and, according to the evidence from well-informed people, there are many large stores that make even more profit on the credit they grant on the sales than on the merchandise they sell.

Previously, there was usury because of lack of appropriate credit institutions; pawnbrokers took the opportunity to practise the horrible trade of usurers. Nowadays, usury has become an institution in our economy of mass consumption with the help of refined commercial publicity taking advantage of human covetousness and creating enumerable requirements as well as using commercial methods tending to satisfy those requirements to multiply the occasions to make more money without thinking of the sad consequences that may result for many consumers who compound too easily pleasure and happiness, thoughtlessly make purchases that are not within their means.

We strongly insist that the proper authorities adopt the law obliging money lenders and dealers to declare that actual cost expressed in an annual simple rate of interest and in dollars and cents and interest and financing costs, in their loan and sales contracts made on credit or on instalment, as well as in advertisements.

The law should also provide for a method of calculating the interest or the cost of credit which would be compulsory so that the consumers may be well

aware of the interest and other exact financing costs they will have to pay before signing the contract. Loans bearing 6% interest granted by certain financial institutions are in fact loans bearing 11.8% interest. The interest is calculated on the initial amount at the time of the loan, for the duration of the loan and the interest is deducted from the amount loaned. Normally, the interest, which is the rent of the money, must be calculated on the unpaid balance, i.e. for the time the borrower makes use of the borrowed money, and to the extent he makes use of it, which means that the actual interest paid on \$100 borrowed for a year with equal monthly repayment is less than \$4.00, if we maintain an annual simple interest rate of 6%. This method of annual simple rate of interest calculated on the unpaid balance of the loan or of the credit granted should be imposed for all loans.

Three methods of calculating interest on loans or sales on credit on instalment, are in use. The study of three methods allows us to understand:

1. How the interest may be dissimulated behind rates of interest that seem reasonable for the consumers;

2. Why it is required that the contracts for loans and sales on credit clearly and precisely indicate the interest and other costs that are added to the loan or to the price of the merchandise and what represents an annual simple interest;

3. That there is an equitable method of calculating interest which corresponds to the authentic definition of interest and which is the price of the rent of the money or credit for the term of the loan or sales contract.

A first method consists in adding to the sum borrowed or advanced under the form of the credit sale the interest calculated on the declared rate. You borrow \$100 for one year at 6%. The total amount to repay is \$106; the interest at 6% for one year on \$100 which you repay is added to the amount borrowed.

If you refund the money borrowed by monthly payments, you will have to repay \$8.83 monthly. You divide \$106 by 12 months, and you obtain a monthly payment, i.e. \$8.83 permitting repayment of the capital and the interest calculated on the basis of a non-decreasing rate of 6% on the full amount borrowed.

The second method consists in deducting from the amount the interest charged. This is the method of discount. You borrow \$100 at 6% per annum. The money lender gives you \$94; he deducts \$6 of interest. If you repay the amount borrowed by way of monthly payments, you will repay \$8.33 monthly.

If you repay each month according to the second method, an amount that is a little less than according to the first one, it is only because in the case of the second method, you will have really only obtained \$94, meanwhile in the case of the first method, you have really received \$100 although in both cases, you have asked to borrow \$100, to be repayed at 6% per annum.

It is to be noted that according to the second method, you repay \$100 and you have received only \$94. According to the first method you have used your \$100 and you have repayed a total of \$106. How many consumers are under the impression that the second method, i.e. the method of discount, costs them less than the first, where the interest is added to the capital. However, effectively, it is the contrary; the method of discount costs them more. For the two methods, they pay 6% on \$100; the interest they pay is \$6.00, in both cases. Consequently, in the first case, they have \$100 and in the second one, they have only \$94. In the second case, they pay as of the time of borrowing, interest on part of the money they do not have. They pay without any reason 6% interest on \$6 that they did not receive on the \$100 borrowed. Isn't that a derogation of what interest is, which is the price of the credit for the money.

The two methods of calculating interest is a derogation of what interest is, and is not equitable for the borrowers because they are called upon to pay without any reason, interest on one part of the borrowed money which they have not received. This is what we are establishing further down when explaining the third method, the only one that seems to us equitable for the borrowers and for the consumers.

The third method consists in calculating the interest on the unpaid balance of the loan or the purchase.

You borrow \$100 repayable in one year at 6% interest. You repay \$7, at the end of the first month, i.e. \$6 in capital and \$1 interest. At the end of the second month, the interest of 6% will be calculated on \$94. It is the same rate of interest as in the first and second methods, but by this method of calculating the interest on the unpaid balance, you pay interest on the loan or on credit for the time you are using it.

This method corresponds to the definition of interest which is the price of charge for the money for the time you use it if we admit that the annual simple interest is the amount paid for use of the money during the period of one year.

Time being an element of prime importance in a calculating of the interest which is established in percentage, for a one year period. This is what we have agreed to call simple annual interest, which is the only method of knowing the actual cost of borrowing.

This methods is equitable because it seems to correspond to the definition of interest, which is against the charge for the money for the time that the loan exists. It throws some light on the two other methods to depict the falseness and establish the necessity therein to indicate a simple rate of interest on the annual or monthly basis in the contracts for loans or for credit, what the interest and other financial costs represent.

The interest on a loan of \$100 is figured for one year calculated at 6% following the first method, which adds up to \$6.00 interest on \$100 to form the amount of \$106 repayable in one year in twelve monthly payments of \$8.33, is equivalent to simple annual interest of 11%.

If the interest is calculated following the second method which deducts the interest of \$6.00 from the hundred dollars borrowed, leaving only \$94 in the hands of the borrower, the interest paid by the borrower, expressed in simple annual interest, is equivalent to 11.8%.

In both cases, the borrower pays the same amount of \$6.00 interest; in the first case he gets \$100 and in the second he gets only \$94. Both methods considered in the light of the simple interest method are inadmissible because they mislead the borrowers, leaving them with false impressions. They should be condemned by the law.

The finance companies as well as individuals and institutions which borrow, make sure the interest on their loans are calculated according to the method of simple interest established on the unpaid balance of the loan, and not only according to the method consisting in adding the interest to the capital in establishing the interest on the individual amount for the whole duration of the loan, neither according to the method consisting in deducting from the amount borrowed the amount of interest calculated on the initial amount loaned and for the whole duration of the loan. And they are right, since the two methods have the effect of doubling, so to say, the actual interest rate established according to equitable methods of calculating the interest on the unpaid balance.

Why should we have two ways of proceeding? Why should not the finance institutions and the stores which grant credit be obliged to treat their customers the same way they are treated when they borrow money?

Article 1531 (d) of the Civil Code of the province of Quebec stipulates that the price of a sale on instalment consists in the regular cash sales price augmented in a proportion not exceeding $\frac{3}{4}$ of one per cent of the total deferred payments for each month of the duration of the term, this increase taking the place of interest and in compensation for risks, losses and supplementary costs of administration that the instalment sale may cause the dealer. The retail stores use that method of calculating the interest on the basis of $\frac{3}{4}$ of one per cent of the total deferred payments for each month of the duration of the term; in other words the interest including all financing costs is calculated on the total amount of the regular sales price for cash at $\frac{3}{4}$ of one per cent per month, i.e. 9% per annum, and this charge is added to the amount after which the amount obtained by the addition of the charge to the regular cash sales price is divided into monthly payments for the period of the loan.

Such an interest, including all administration costs and other costs, is, if expressed in annual simple interest, equivalent to a rate of 18%. The law should require that the sales contract indicate what is represented by the total amount of interest and financing costs, in simple annual or monthly interest expressed in percentage, since the interest is the price of the charge for the money for a certain period of time; or in a more technical way, it is a unit of money which is used to pay the charge of a fixed amount of money during a determined period of time. This unit of money is for us, the dollar and the unit of time is one year and the simple interest is the interest which is measured for the period of the loan. It is expressed in percentage. Time is then a factor in the establishment of the interest. It indicates that interest, to be in accordance with the true definition of interest, must be established on the unpaid balance of the loan, which reduces with the monthly payments so that the borrower only pays the interest on the money he uses for the time he uses it. Just as the one who rents a house, a motor car, pays rent for the period of time he has the use of it. It goes to say that equitable interest must be calculated on the basis of the decreasing rate, that is to say on the unpaid balance and it must be paid to the money lender at the time the payments are made.

The other methods which add interest to the capital after having established it on the initial amount of the loan for the whole duration of same, double so to say, the interest in connection with the simple interest established on an annual basis; the borrower has to pay interest on a considerable part of the loan which he does not receive.

He who borrows \$100 for one year, repayable by equal monthly payments uses only one medium amount of \$50 for a one year period. He has then no reason to pay 6% interest on \$100 during one year. And this is what explains, that in connection with the annual simple interest for one year, that interest of \$6.00 for \$100 is approximately double. The borrower pays in fact one part of the charge for money which he doesn't use for part of the year.

That is the reason why to know exactly how we stand about the way the borrower is treated, the interest must appear on the loan or credit contracts, and it must be established by way of percentage calculated according to the method of calculating the simple interest which is the only equitable method to be used as a basis of comparison, as a guide permitting the consumers to know the interest charge in comparison to the other methods which should not be used.

The borrowers and the purchasers should always have the right of repaying before maturity without being penalized.

The law on loans should be amended in such a way that the money lenders subject to it would be obliged to report to the Federal Superintendent of Insurance all loans not exceeding \$5000 and that they could not charge interest and other financing costs exceeding 9% per annum on the unpaid balance according

to the method of simple interest on all loans exceeding \$500. The cost of loans less than \$500 should not exceed 12%.

The law should limit to 1% per month or 12% per annum calculated on the unpaid balance, the cost of all purchases on credit and should require that the buyer pays a 20% down payment at the time of purchase.

As to the loans guaranteed by second mortgage, to protect the consumers against certain excessive rates of interest that the money lenders impose and against the exorbitant charges they make, a law should be imposed to regularize interest, administration and other costs.

RÉSUMÉ OF THE BRIEF

I—Consumer credit outstanding in Canada has passed from half a billion dollars to more than five billion dollars since the end of the war. Such an amount of debts is heavy, not to say excessive, in our present Canadian economy.

II—Many are the Canadian consumers who have made an abusive use of credit and who are presently facing serious financial difficulties.

III—Consumer credit is expensive; interests and other charges are too often usurious. There are considerable abuses in this area.

A legislation is mandatory:

- (a) to determine a reasonable limit to the cost of consumer credit and to eliminate usury;
- (b) to oblige creditors and merchants to reveal the *real cost of credit* in terms of simple annual interest rate expressed in percentage form, so that the consumers may compare the costs of loans and credit terms offered and know the obligation they undertake;
- (c) to force creditors and retailers to tell the truth as to the rates of charges when they advertise;
- (d) to foresee the cancellation of those contracts which are not complying with this legislation;
- (e) to oblige the lenders of money who presently come under the jurisdiction of the Small Loans Act to report to the Federal Superintendent of the Assurances on all their loans not exceeding five thousand dollars (\$5,000);
- (f) to oblige consumer goods retailers to demand from the consumer a money down payment equal to 20% of the regular price of the merchandise offered, at the time of purchase, and to prevent them from charging interests and other finance costs exceeding 1% per month or 12% per year, and to establish interests and other financial charges on the unpaid balance of credit according to the simple annual interest method.

APPENDIX I

The Desjardins Credit Unions (Caisses Populaires) Protect Their Members Against Usury and the Misuse of Credit

With the advent of a trade economy that took the place of a domestic economy, and full scale industrial production which led to the division and specialization of jobs, *the capital importance of money and credit and the vital need for an adequate system of credit* were emphasized. Thus both industrialists and merchants, conscious of the essential function of well-organized and efficient credit did not hesitate to set up commercial banks to help them with their credit needs and to assist their progress. In Germany during the last century, draftsmen were up against ruinous competition from emerging, large industry and needed credit to pay cash for their materials. They were thus obliged to set up people's banks, which they did through their purchasing co-operatives under the direction of Herman Schulze Delitzsch, a prominent economist and humanist, in order to reduce the cost of credit and meet competition.

But what did the farmers do at that time? Did they not also have increasing credit needs at a time when agriculture was being industrialized and commercialized? They deposited their savings in the banks who channeled them towards the large centres and used them for industrial or commercial purposes. These commercial banks were not interested in lending money to farmers who, because of their marginal revenues, were unable to pay them as much interest as industry and trade.

It was the farmers' unsatisfied need for credit that led Raiffeisen to establish co-operative rural credit in Germany in the middle of the last century. The farmers formed an association on a community basis to obtain loans from which they could then borrow. They collectively obtained funds from the loan companies by taking collective responsibility for the loans obtained through their credit co-operatives.

At the end of the last century a Canadian, Alphonse Desjardins, seeing the ravages caused by usury in this country because our working classes had no savings and no credit organization, established his credit union in 1900 and set it the task of organizing people's savings in terms of people's credit and meeting their credit needs under the best possible conditions.

Alphonse Desjardins, an official stenographer of the House of Commons in Ottawa, took down the parliamentary debates that took place in the last decade of the nineteenth century regarding the excessive rates of interest his low income fellow citizens were obliged to pay, and the legislative measures designed to protect them against usury. He had already been devoting his spare time to the study of economic and social problems and now began an extensive study into the problem of usury, first looking for the causes and then for efficient ways of solving the problem. The members of the House would periodically ask questions about the exorbitant rates of interest, deploring the fact that the laws designed to protect the people in the low income bracket against the insatiable appetite of the money lenders were inefficient. The revelation of certain usurious practices in large cities in Eastern Canada, such as Montreal, seemed to indicate that the blight of usury was spreading to an ever increasing extent.

He made a careful inquiry and discovered the extent and the depths of the blight of usury in Canada. In his booklet on credit unions he wrote: "Indeed it was the sad facts that were brought to the attention of the public during certain law suits that caused a stir in Montreal and elsewhere, in

which unfortunate borrowers were involved, who were paying heartless money lenders hundreds of per cent in interest for insignificant loans, that incited us to study the problem closely and look for ways of solving it."

In a letter of Henry Wolff, president of the International Co-operative Alliance dated June 6, 1898, Mr. Desjardins confirmed his investigation into money lending and his determination to find a solution: "Recently, a case submitted to the court of justice revealed the existence of usurious practices to me. The case was that of an individual who had to pay a rate of 120% per annum interest on a small sum of money he had borrowed from a money lender. And the case is not unique for I have an entire file of facts of this nature which I have been collecting for some time as I want to find a way of overcoming the problem of usury".

Mr. Desjardins realized that usury was made possible and facilitated by the lack of organized credit for the working classes. Credit was organized for trade and industry; the credit system existing at that time was almost entirely monopolized by industrialists and trades people, indeed they were practically the only ones who could take advantage of credit; credit was not organized to meet the capital needs of farmers, craftsmen or labourers. "Up to now, Mr. Desjardins noted in his booklet on the Caisses Populaires, the workers, to satisfy their credit needs have had no other solution than to turn to the small-loan operator, the clandestine money lender who never fails to exact his pound of flesh from the desperate victims he gets his hands on." The banks were not organized to meet the credit needs of the working classes. "Neither the banks nor the loan companies", Mr. Desjardins wrote in his brief to the Parliamentary committee appointed to study the bill on co-operatives and industrial societies, "want to meet the credit needs of poor people because the latter have nothing but their honesty and willingness to repay. This deficiency in our economy had greatly encouraged a class of money lenders, of short-term money lenders we now refer to as usurers who speculated on the public's needs under the pretext of providing them with a service".

At the meeting of the special Parliamentary committee on the bill concerning industrial and co-operative societies held on February 22, 1907, Mr. Monk, the member for Jacques Cartier, stated: "It is true that our larger banks have branches in the rural districts and in the suburbs of large cities, but these branches are mainly operated for the purpose of collecting deposits. Neither the workers, nor anyone else in the rural areas, can obtain credit from these banks, say, to buy the implements they need for their trade."

In a speech he made at the Youth Congress held in Quebec in June 1908, Mr. Alphonse Desjardins emphasized the need to organize a source of credit for the working classes and stated: "The banks do not grant credit to poor people. They lend money to customers they recruit, for the most part, in large industry and trade. The humble labourer or farmer who deposits money in those banks only has his money but never gets a loan. The money lender is the only one he can turn to for comfort, and God only knows how much it costs him." (cf. Alphonse Desjardins by C. Vaillancourt and Albert Faucher, 1950, page 86).

The necessary financial machinery was lacking in the normal economic life of our country, since the usury the "economically weak" were victims of, was rendered possible and aided by the absence of a credit system adapted to the credit needs of our working classes.

It appeared to Mr. Desjardins that the only efficient way to reduce usury was to provide the working classes with a good credit system which would rescue them from the money lenders' grasp and grant them the capital they needed to promote their small undertakings and to prosper. He then attempted to find out whether usury had existed in other countries, particularly in Europe, and what steps had been taken to remedy the situation.

Among other books on economy in the Ottawa library Mr. Desjardins found one entitled "People's Banks" by Henry Wolff, an English economist, dealing with *People's Banks and co-operative credit unions*. This book provided him with information regarding usurious practices in certain European and Asian countries, and the people's co-operative credit institutions those countries had organized to put an end to such practices.

It seemed to him that usury was the symptom of a serious deficiency in the economic organization of the working classes. *In Canada, the blight of usury seemed to be a consequence of the economic system's failure to help the working classes to organize a good credit system.* Instead of helping the small people to organize credit institutions the banks, on the contrary, were channeling their small savings towards the larger centres. The working classes were deprived of the credit they were actually in need of. The banks were not interested in granting them credit. The small-loan operators were practically the only source of credit to those who were economically weak could turn, and these money lenders were taking advantage of the difficult situation the working classes were in by charging them exorbitant interest on loans.

Mr. Desjardins realized that to really solve the problem of usury it was necessary to help the people to organize its own financial institutions to meet its credit needs and thus protect itself against the insatiable appetite of the money lenders, since the existing economic system was not interested in organizing a sound and efficient credit system for the working classes, finding it more advantageous to channel their small savings towards the larger centres where they helped to supply industrial and commercial credit.

The savings and loans institutions organized by the people and for the people are savings and credit co-operatives. Through those institutions the working classes themselves solve their credit problems and no longer have to rely on others to do so. *"The only way in which the working classes who want to manage their own business, without the costly assistance of anyone else can do so, is to get together and both benefit from the advantages and shoulder the responsibility accompanying complete control and entire involvement in the economic life, the indispensable corollary of the civil and political emancipation we enjoy."*

Apart from teaching citizens to co-operate and help one another, the credit unions were to teach them to practice economy and put money away, and to organize credit for the working class on a decentralized basis. To teach citizens to co-operate and help one another, to collect their savings and take control of their capital, is the first stage people have to achieve to organize their economy properly. The credit unions were to enable them to accomplish this first essential task. In his brief on the organization of agriculture in the province of Quebec, Mr. Desjardins expressed his conviction in this regard in the following terms: *"We do not hesitate to state that we would like the credit union, that is the association of modest local capital, to become the centre of activity, the generating nucleus of the movement. It has been said many times, and experience has confirmed it, that money is the backbone of war. Without money any economic enterprise lacks strength. We are faced with a situation where we are obliged to carry on a war on several fronts. One of the most effective ways to be successful is to ensure the powerful support of credit by organizing a fund to serve as a reserve for the local savings which will then pour back beneficial loans and advances into the individual or collective undertaking this reviving movement will have provoked"*.

On looking through the House of Commons debates on usury Mr. Desjardins noted that as early as 1885, a member had suggested setting up agricultural banks that would operate under the control of the farmers. His

study of credit co-operatives in Europe had, moreover, convinced him that the institution of people's credit that would allow the working classes to get low cost credit and get away from the money lenders, should belong to those same people who need credit, and that to achieve this the people's credit institutions should take the form of co-operatives in which the owners, users and beneficiaries of the institutions are the same people enjoying equal rights with regard to their administration and orientation.

Mr. Desjardins was firmly convinced, moreover, that in order to be properly adapted to our exchange economy which requires a lot of capital, and to be fully efficient, people's credit should be supplied by people's savings. It should even encourage people to save, since saving is a good apprenticeship for credit. Mr. Desjardins believed that to belong to the people and at the same time be efficient, credit should belong to the people, first of all by being supplied by the people, and, secondly, by being controlled by the interested parties themselves who see that it is well organized that distribution is done judiciously and at low cost so as to be truly for the people in its purpose, which is to efficiently meet the credit needs of the working classes. The "credit manual" experience in Europe had convinced him that co-operation would provide the principles on which to base an efficient people's credit system because co-operation, in addition to calling for personal effort, individual initiative, and foresight on the part of those who used credit, multiplied their individual strength by combining and co-ordinating it, and enabled them to settle their common problems themselves thus giving them a feeling of pride and solidarity.

It therefore appeared to Mr. Desjardins that the people's credit co-operative should first of all be a savings institution, that is, an institution that teaches its members to act with foresight, to economize, to appreciate sound administration and small savings, so that the social classes, in drawing moral strength from practising the virtues of foresight and mutual assistance, would finally supply their own credit institutions with their own savings.

The people's credit institutions thus had to be both a savings co-operative and a credit co-operative. Mr. Desjardins saw no possibility of organizing the economy of a people without first developing a sense of foresight and a sound economy in the social classes, or without collecting the small savings that would result when the working classes practised the virtues of foresight and economy. "With regard to savings", Mr. Desjardins wrote in his letter to Charles Rayneri, director of the *Centre federatif du credit populaire* in France on October 18, 1900, "I want our associations to serve as schools and teach the application of this social virtue, and to that end we shall accept even five cent deposits."

Mr. Desjardins realized that there was relatively little money among the working class and that the latter were not accustomed to saving. In his evidence before the special Parliamentary committee appointed to conduct an inquiry in connection with the bill on industrial and co-operative societies (1909) he stated as follows: "The man of the street does not give the slightest thought to saving, because, according to him, it is not worthwhile putting money aside." And in his brief on the organization of agriculture in the province of Quebec, Mr. Desjardins spoke of the working class' "contempt for savings" and its "regrettably disdainful attitude towards practising economy" as a "national vice" that was a source of individual and collective distress and suffering, which engendered a general affliction that kept our population in a deplorable state of economic dependence.

Thus the credit co-operative must first of all be a co-operative savings institution by teaching people how to use and supply credit. Education in economy and savings is the first task that has to be accomplished for those who are economically weak. The first function of the credit union is to stimulate and collect the savings of the working class and to initiate its members in the wise

use of credit. The second function of the credit union is to use the savings to advantage by granting productive or advantageous loans at low cost to those who need credit and can put it to good use.

Using the Schulze Popular Banks and the Raiffeisen Rural Credit Co-operatives, Mr. Desjardins thus built up (by borrowing certain elements of the mutual savings banks established in the New England states) a savings and credit co-operative. *The co-operative principles underlying these institutions allowed him to co-ordinate savings and credit in a single people's credit institution established on a decentralized basis so that people's savings could efficiently and economically serve people's credit.*

In studying the operation of the French savings funds Mr. Desjardins noted that the attempts made to change those institutions (1885-95) in France, normally led to giving the French savings funds a co-operative form and providing them with a mutual credit service, so that the savings paid in by the French farmers and craftsmen could henceforth be used for credit. The movement to change the French savings funds so that the working classes could use their considerable capital co-operatively, and the policy whereby the German savings funds which at the end of the last century, engaged in agricultural investment credit and to some extent personal credit, convinced Mr. Desjardins that he should organize a savings and loan co-operative adapted to our society by borrowing certain elements from the American Mutual Savings Banks and following the principles of the Schulze People's Banks and the Raiffeisen Funds. The development and efficiency of the *Caisses Populaires* prove that he was right.

The purpose of this credit union, as set out in section 2 of the statutes of the first *Caisse Populaire* he established in Levis in 1900, are as follows:

1. To safeguard its members against financial setbacks, the results of unemployment, illness and poverty by teaching them the invaluable advantages of foresight based on co-operation, namely, by giving them a taste for, and the habit of putting even a small sum aside regularly and with determination.
2. To assist, them through the wise use of credit in the form of loans or advances granted after they have advised the society of the purposes of the loan and the latter has approved such purposes, and on condition the said purposes correspond to the spirit in which the society was founded.
3. To enable honest and industrious people who have no fortune, to belong to the society by granting them the facility of paying off shares they acquire by very low weekly payments.
4. To ensure the practice of the Christian and social virtues that distinguish the good citizens, the hard and honest worker, by requiring above all that the members who borrow money from the society furnish high moral guarantees.
5. To combat usury by means of co-operation, by providing all those who deserve it because they like to work and are capable and honest in their behaviour, with credit they need for their activities, thus ensuring their independence from the money lenders who charge an exorbitant commission or interest, or from people who give credit under other excessively expensive conditions.
6. To encourage a spirit of initiative and local employment, in industry or agriculture, through the wise use of the savings produced in the society's district.
7. To give its members a practical knowledge of the elementary principles of economics.
8. To teach them to respect their commitments and the advantages inevitably derived by those who faithfully fulfill their undertakings.
9. To promote and increase mutual confidence between members of the society by means of economic reports based on faith in guarantees of a high

order, because they rest to a great extent on morality, honesty, good order, and a liking for work and foresight.

10. To procure for them progressively, through sustained effort aimed at saving, and, as a consequence, a fair measure of credit, economic independence which promotes and develops the sentiment of personal dignity and convinces people that they must, above all, count on themselves to improve their situation and rise in the social ranks.

The objectives the credit unions pursue through their method of distributing credit and depreciating their loans by means of *small regular payments*, are no different from those they want to achieve as savings co-operatives. The principles and objectives of the credit service of the *Caisse Populaire Desjardins* are the same as those of the savings service, namely, the improvement of the economic and social conditions of its members, and in both cases it pursues those objectives by *using foresight and practising economy and saving*. By requiring borrowers to make small payments on their loans they are encouraged to use foresight and practice economy *in order to put money aside to repay their loans little by little and improve their financial situation and their social standing*. That is why the credit commissioners have to know the purposes of loans and make sure that they will be really useful and advantageous to the borrowers. That is also why the credit commission requires borrowers to *undertake to make small regular payments on their loans* so that they will be encouraged to put their affairs in order, to use foresight and moderation, to economize, to make a sustained effort to organize their undertakings and their way of life properly, so as to be able to put money aside in order to improve their financial situation and their social position. Such is the economic and social education the credit commissioners dispense while carrying out their task according to the principles of the founder who wanted his credit union to serve, in every parish, as a *practical school for educating citizens in economic and social matters*.

The Desjardins Caisses Populaires are decentralized schools of foresight, economy, savings and credit apprenticeship.

They want, not only to protect the savings entrusted to them and see that they are used to advantage, *but also to take such steps as may effectively bring families to be well-organized*. If the families of a parish become associated and form a credit union it is to help one another. This assistance is not limited to protecting savings and using them wisely, it also covers education in home management. All that is required to be convinced of this, is to give a little careful thought to the objectives of the unions as described in their general statutes. In this country, savings are not developing at an adequate rate to meet the investment needs of our growing economy. In addition, despite of, or because of, the higher salaries and incomes Canadians enjoy, the consumer credit has increased considerably since the last war. The living conditions, aspirations and needs of our families have undergone a considerable change because of the industrialization and urbanization of our society.

Conscious of their responsibilities with regard to our working classes the *Federation de Quebec des Caisses Populaires Desjardins and l'Assurance-Vie Desjardins*, their common property, wanting to be adequately informed about the present living conditions and essential needs of our families, asked the Economic and Social Research Committee of the Faculty of Social Science of Laval University, Quebec, (following the international *Caisse Populaires Congress* held in 1957 at Levis, the cradle of the *Caisses Populaires*, whose theme was the family budget) to undertake a scientific inquiry into the living conditions, aspirations and needs of families of salaried workers in the province of Quebec. This inquiry (the complete report of which is to be published within the next few days) throws light on the factors that condition the behaviour of families with regard to savings and the use of credit in relation

to their consumer needs. It defines their living conditions, their aspirations and their needs and provides reliable information that will enable the *Federation de Quebec des Caisse Populaires Desjardins* to constitute budgets that are adapted to the families in our various circles of activity. The data provided by this inquiry with regard to our area will help the heads of the credit unions to work out policies concerning savings and credit. They will make it easier to select the ways and means best suited to encourage our families to be methodical, make better use of consumer credit, and, let us hope, to provide for the future.

In the opinion of the founder of the *Caisses Populaires*, savings precede and, to some extent, justify credit. Any co-operative is based on the personal effort of its members and on their mutual assistance. Where the *Caisses Populaires* are concerned, savings result from the personal effort of their members, and the loans they grant one another by means of their savings, express the assistance they give one another. The members make an effort to same so as to be worthy of credit. This is how, in the *Caisses Populaires*, savings both precede and supply credit.

Savings justify credit. Experience has shown that most of the time those who put money aside make good use of credit. By saving methodically they develop a sense of economy, of moderation and good management, all of which help them to use credit wisely.

The Honourable F. A. Nicholson who headed the committee appointed by the Indian government to inquire into rural co-operative banks abroad with a view to establishing such banks in India, emphasized this fact as follows in his report: "*Credit, to be sound and beneficial, must be preceded by the practice of saving not only in the sense that capital, in order to be loaned, must first be saved, but that it is the individual who saves who should obtain and make the best use of credit.*"

That is why only members of the organization may deposit money in their *Caisse Populaire* and borrow from it. They group their savings there and then grant loans to those who need them. For anyone may at some time need a loan. They build up their credit on their joint savings and they help one another by means of loans that are useful or necessary to their progress.

The loan policy of the Desjardins Caisse populaire

The golden rule that governs the loan policy of the *Caisse Populaires*, is the service the members want to render one another. The *Desjardins Caisses Populaires* must help their members by productive or advantageous loans. The credit commissioners must be sure that the loan solicited will improve the borrowers' situation. In the brief Mr. Desjardins submitted to the Parliamentary committee on the Bill concerning co-operative organizations in 1907, he stated that the credit union should "*help its members by obliging them to use the credit they are granted for a productive purpose, or to avoid expenses that would be much higher if they did not obtain the funds they need in time. It is not merely a matter of the credit granted because of the advantage the borrower will derive from it, credit that the banks, for example, grant their customers on condition they provide satisfactory guarantees, but of a very special kind of credit. Credit that will really be productive.*"

The internal regulations of the *Desjardins Caisses Populaires* strictly require the credit commission to grant the members only such loans as will be useful or advantageous. The credit commission must know exactly how the borrower intends to use the requested loan and must refuse any loan solicited for useless, extravagant or unproductive purposes, or again, purposes that might be detrimental or dangerous to the true interests of the borrower, either because of his inexperience or for other reasons." The *Caisses Populaires*, whose sole purpose is to help their members, cannot and must not grant loans

that are other than productive or advantageous to the borrowers, loans which, according to the founder's expression are for the purposes of "helping them and making them more prosperous".

In order to further emphasize his concept, Mr. Desjardins also quoted in his brief to the Parliamentary committee of 1907 some extracts from the report of the Honourable F. A. Nicholson who, towards the end of the last century, inquired into credit co-operatives in Europe with a view to introducing credit co-operatives in India. Regarding the use of credit the Honourable F. A. Nicholson wrote as follows: "It is not only easy, low-cost, credit that is needed, nor is it money loaned on advantageous terms without regard to the use that is to be made of that money, but *wise, sensible and productive credit that is needed in present times. The form selected by organized credit must in itself be a safeguard, a guide and a check, so that credit may be used not merely to satisfy extravagant tastes or used without enlightened foresight, but only to ensure advantageous production and desirable prosperity.*"

Credit is judged not from the goods it procures, but from the advantages to which the things people procure with it are to be used. What is consumed on a farm obviously disappears, but this consumption takes place for productive or advantageous purposes, in other words, to make the farm more prosperous. The credit unions, who only grant loans to improve their members' situation, must study each application and make sure the loan will be used to advantage. Thus the person who wants to obtain a loan from a Caisse Populaire must reveal, quite frankly, how he intends to use his loan. In his brief to the Parliamentary committee on the Bill concerning co-operative societies (1907), Mr. Desjardins wrote as follows in this connection: "*but what is far more important, both for the borrower and the organization, is to constitute a sound element of security with regard to punctual payments on the loan, this is evidenced by the experience acquired over more than half a century in Europe where results have never ceased to be excellent. It is the member-borrower's obligation to clearly state the purpose for which he is requesting a loan. He is obliged to do so under the statutes and if he does not abide by that rule he is invariably refused the loan however good the guarantees, he offers may be. This constitutes a valuable safeguard for the association.*" The credit commissioners must ascertain whether by the use to which he puts the money, the member-borrower will be able to make a profit, improve his financial situation and repay his loan. In his brief to the Parliamentary sub-committee Mr. Desjardins quoted a highly eloquent extract from the work by Henry Wolff on co-operative credit banks. He pointed out the advantages resulting from the wise use of credit and from its conscientious control by the credit commission so ably that we cannot resist reproducing it here in its entirety: "The member is assumed to be honest. But does the use he has in view promise reasonable profit, will the product of the operation be sufficient for him to repay the loan in question, and, in the case under consideration, will the use he makes of the loan be fruitful? These questions are being studied in considerable detail and their solution is given by the decision taken by the credit commission who always act with a strong feeling of responsibility. In this regard the credit commission is restricted by the statutes and by its responsibility, and in addition, it knows that whatever it decides will be reviewed from time to time by an independent body. This body (the supervisory council) which is superior to the commission and exercised regulatory powers in the interest of the "bank", will never allow the commission to be easy going. If the case recommends itself in all other respects the question of the amount or the period of time never arises. To be really useful a loan must be proportionate as to the length of time, the amount and the purpose for which it is made. It should therefore be granted for a sufficiently long period of time so that it can be repaid with the product of its use—otherwise

such credit will burden the borrower more than it will assist him, since he would have to draw considerably on his other sources of revenue to effect repayment. But the purpose of the loan must be commendable and advantageous. The borrower may want to use it to procure the raw material he needs for his industry, he may also want to use it to get through a difficult time or to avoid losses by having to sell his products when the market is not propitious. Or again, the loan may help him to derive greater benefit from the advantages offered by his industry, the operation of his farm or domestic needs. He may have to irrigate a field, sink a well, buy a cow or a hog, build a shed, a house, or open up a road. The loan may help him pay cash, and thus realize a considerable saving, on goods he needs which would cost him far more if he had to wait, or to buy them on credit from the merchant. Finally, he may need money to get out of the clutches of a money lender. Many loans are granted for this purpose with the best possible results. To poor people, usury has almost ruined them leaving only a bare margin of solvency. But all these things call for careful study on the part of the men who know the applicant, who are aware of his situation, men who can watch and check the facts and who have considerable personal interest in not taking any risks."

For credit to be used properly, the borrower must have moral qualities and professional aptitudes. For the member who wants to obtain a loan from his Caisse Populaire must have qualities that recommend him quite obviously to the credit commission. According to the internal regulations he must be "honest", in the habit of paying his bills, sober and a good worker".

When the credit commissioners study an application for a loan they first consider the moral guarantees and then the borrower's solvency. Honesty is the best of assets. It comes first. To borrow from Luzzati, the founder of popular banks in Italy, credit co-operatives "capitalize on honesty". It is the very basis of their credit policy. The Caisses Populaires first considers the moral value and aptitudes or professional qualifications of the borrower and then check his financial situation. It makes sure that the loan will be put to good use and will be repaid according to the terms offered by the borrower and considered acceptable by the credit commission.

Object or purpose of loans

The Desjardins Caisses Populaires "actually are banks" for the working classes (see booklet "*La Caisse populaire*" by Alphonse Desjardins) *where the honest, hard working, sober, economical workers and farmers can get the funds they need for their activity, to get a home, to free themselves of an onerous debt or to pay cash for necessary purchases.*"

Unfortunately, we do not have any statistics establishing the use made of loans according to their purposes.

The experience is an excellent one

An analysis of the loans made by the Desjardins Caisses Populaires during the calendar year 1963 (the last complete statistics) revealed that the average short-term personal loan was of \$764.00 and that the average loan against property was of \$4,300.00.

The Desjardins Caisses Populaires in Quebec granted 168,000 loans during the year 1963, for an aggregate amount of \$211,000,000. One hundred and ten thousand loans were of less than \$1,000.00.

One hundred and forty-four thousand, three hundred and eighty-four loans were personal loans (granted against acknowledgment of liability) and the break-down by order of value is as follows:

10,939 loans under	\$ 99.99
17,897 loans of \$100 to	\$ 199.99
41,431 loans of \$200 to	\$ 499.99
37,199 loans of \$500 to	\$ 999.99
35,295 loans of \$1,000 to	\$4,999.99
1,623 loans of \$5,000 or over.	

The Desjardins Caisses Populaires enabled borrowers to realize substantial savings through the method of calculating interest on the balance due on loans. They do not require interest to be paid on the total amount of the loan throughout its duration, as some financial institutions do for their so-called "people's loans". These institutions deduct interest from the total amount of the loan at the time the money is handed to the borrower.

The Caisses Populaires lend \$100 at 6%, to be repaid over 12 months at the rate of \$8.34 per month.

The following is the interest a member will pay:

	Balance Due	Interest
January	\$100.00 @ 6%	\$0.50
February	91.66 " "	\$0.46
March	83.32 " "	\$0.42
April	74.98 " "	\$0.38
May	66.64 " "	\$0.34
June	58.30 " "	\$0.30
July	49.96 " "	\$0.25
August	41.62 " "	\$0.21
September	33.28 " "	\$0.17
October	24.94 " "	\$0.13
November	16.60 " "	\$0.09
December	8.26 " "	\$0.05

TOTAL \$3.30

He receives \$100 from his Caisse Populaire on which he pays \$3.30 interest. The Caisse Populaire did not hand him \$94 (instead of \$100) as some institutions do for their so-called "people's loans" saying: "We have deducted 6% interest from the loan, here is the balance and the interest is paid.

The Caisses Populaires hand the borrower \$100, enabling him to save \$2.70 in interest charges on a loan of \$100.

Thus our Caisses Populaires who so far have loaned two billion dollars, have enabled their members to realize tremendous savings, while ensuring a rate of interest on their savings which, in itself, represents substantial savings. All of which is due to the co-operation and, of course, the efficient management of our Desjardins Caisses Populaires.

The amounts saved in interest on a loan from the Desjardins Caisses Populaires is even more evident when it is compared with the interest of a finance company, whose actual rate of interest on loans vary between 6% and 24%. The interest paid on a loan of \$300 obtained from a finance company, repayable in 24 months at \$15.86 monthly, substantially exceeds that on a similar loan of \$300 from the Desjardins Caisses Populaires, repayable in 24 months at \$13.30 per month. In the first case the interest amounts to \$80.64, while in the second the interest is \$19.10, thus realizing a saving of \$61.54.

The Desjardins Caisses Populaires encourage their members to save for specific purposes. By saving regularly the borrower shows his Caisse Populaire

that he can afford to purchase the item he needs. The Caisse Populaire then completes, by means of a loan, the amount the borrower needs to pay cash for a stove, sewing machine, washer, refrigerator, etc.

As the Caisses Populaires know their members, they can have a healthy influence on home management, encourage the use of discrimination in the satisfaction of their needs and avoid confusing the superfluous with the necessary; budget their expenses and live within their incomes.

The Desjardins Caisses Populaires perform this educational service because of the obvious need for it.

Before granting a loan for purchase of any necessity, they ensure that it will be useful to the borrower, is required for the happiness of his family and corresponds to his ability to repay.

Thus the Desjardins Caisses Populaires help their members to use credit soundly and fruitfully by encouraging them to budget their expenses and not to live beyond their financial means.

In general, borrowers faithfully meet their commitments and that is why the *caisses populaires* do not establish any special provision for bad loans or loans that are not repaid, as losses are rare and usually so small that they are absorbed by the yearly net profits.

The following is a table of the number and value of losses on loans sustained by the *caisses populaires* during the main years given. These statistics were provided by a special questionnaire completed by 65% of the "*caisses*" holding 85% of the organization's assets as of December 31, 1961:

Year	Number of Losses	Value of Losses	Loans granted during the year
1950	6	\$ 2,052	52,288,680 ¹
1951	18	16,950	58,521,774 ¹
1952	18	9,014	65,430,562 ¹
1953	19	39,640	80,602,938 ¹
1954	20	12,736	79,689,195 ¹
1955	20	18,289	97,115,354 ¹
1956	39	28,825	119,151,104 ¹
1957	41	23,272	117,370,616 ¹
1958	33	31,175	129,568,909 ²
1959	70	23,650	143,987,057 ²
1960	63	25,307	126,525,147 ²
1961	52	14,538	178,929,133 ²

¹ Statistics of the Quebec Provincial Bureau of Statistics, based on the calendar year, including all the *caisses populaires* in Quebec who report.

² Statistics based on the calendar year, not including the *caisses populaires* affiliated with the Quebec Federation.

Rates of interest

As a general rule there is a margin of 1% between the rate of interest on personal loans (granted against acknowledgement of liability) and mortgage loans.

Similarly, a reduction of 1% is granted to a member who borrows against acknowledgement of liability when the loan is secured by shares, savings, or readily negotiable bonds.

Loans granted against acknowledgement of liability

The following table gives the rates of interest the *caisses populaires* charge on personal loans. These rates were effective at the end of the 1961 calendar year of the affiliated *caisses populaires*:

Rate of interest	Number of "Caisses" applying this rate of interest	Loans outstanding as of December 31, 1961
2.50%	1	\$ 27
4.00%	1	1,375
5.00%	5	161,775
5.50% to 5.99%	6	491,707
6.00% to 6.49%	430	18,601,380
6.50% to 6.99%	100	6,181,095
7.00% to 7.49%	596	33,844,106
7.50% to 7.99%	37	6,819,204
8.00%	35	2,034,926
9.00%	1	132,245
	<hr/> 1,212 <hr/>	<hr/> \$ 68,267,840 <hr/>

Mode and median: 7.00%

Mathematical average: 6.63%

Weighted average for loans outstanding on December 31, 1961:
6.75%

The following are the rates of interest charged on mortgage loans:

Rate of interest	Number of "Caisses" applying this rate of interest	Loans outstanding as of December 31, 1961
0.00%	101	
4.50% to 4.99%	1	\$ 12,095
5.00% to 5.49%	128	14,427,277
5.50% to 5.99%	45	10,000,759
6.00% to 6.49%	610	124,397,393
6.50% to 6.99%	202	109,862,367
7.00% to 7.49%	124	60,262,442
8.00%	1	84,654
	<hr/> 1,212 <hr/>	<hr/> \$ 319,046,987 <hr/>

Mode and median: 6.00%

Mathematical average: 5.57%

Weighted average for loans outstanding on December 31, 1961:
6.32%

The following table, used as an example, shows how the Desjardins *Caisses populaires* proceed.

Loan of \$100 at 7% interest, repayable over 12 months, by monthly payments of \$8.34 for 11 months and a final payment of \$8.26.

Month	Balance out- standing	Number of Days	Rate of Interest 7%
January	\$100.00	31	\$0.60
February	91.66	28	0.49
March	83.32	31	0.49
April	74.98	30	0.43
May	66.64	31	0.40
June	58.30	30	0.33
July	49.96	31	0.30
August	41.62	31	0.25
September	33.28	30	0.19
October	24.94	31	0.15
November	16.60	30	0.09
December	8.26	31	0.05

Amount of interest paid by the borrower: \$3.77

TABLE OF DEPRECIATION OF A LOAN OF \$300
AT 6% INTEREST PER YEAR

Month No.	Capital loaned	Reimbursement	Interest	Discount
1	\$300.00	\$13.30	\$1.50	\$11.80
2	288.20	13.30	1.44	11.86
3	276.34	13.30	1.38	11.92
4	264.42	13.30	1.32	11.98
5	252.44	13.30	1.26	12.04
6	240.40	13.30	1.20	12.10
7	228.30	13.30	1.14	12.16
8	216.14	13.30	1.08	12.22
9	203.92	13.30	1.02	12.28
10	191.64	13.30	0.96	12.34
11	179.30	13.30	0.90	12.40
12	166.90	13.30	0.83	12.47
13	154.43	13.30	0.77	12.53
14	141.90	13.30	0.71	12.59
15	129.31	13.30	0.65	12.65
16	116.66	13.30	0.58	12.72
17	103.94	13.30	0.52	12.78
18	91.16	13.30	0.46	12.84
19	78.32	13.30	0.39	12.91
20	65.41	13.30	0.33	12.97
21	52.44	13.30	0.26	13.04
22	39.40	13.30	0.20	13.10
23	26.30	13.30	0.13	13.17
24	13.13	13.20	0.07	13.13
		\$319.10	\$19.10	\$300.00

TABLE OF DEPRECIATION OF A LOAN OF \$300
AT 2% INTEREST PER MONTH

Month No.	Capital loaned	Reimbursement	Interest	Discount
1	\$300.00	\$15.86	\$6.00	\$ 9.86
2	290.14	15.86	5.80	10.06
3	280.08	15.86	5.60	10.26
4	269.82	15.86	5.40	10.46
5	259.36	15.86	5.19	10.67
6	248.69	15.86	4.97	10.89
7	237.80	15.86	4.76	11.10
8	226.70	15.86	4.53	11.33
9	215.37	15.86	4.31	11.55
10	203.82	15.86	4.08	11.78
11	192.04	15.86	3.84	12.02
12	180.02	15.86	3.60	12.26
13	167.76	15.86	3.36	12.50
14	155.26	15.86	3.11	12.75
15	142.51	15.86	2.85	13.01
16	129.50	15.86	2.59	13.27
17	116.23	15.86	2.32	13.54
18	102.69	15.86	2.05	13.81
19	88.88	15.86	1.78	14.08
20	74.80	15.86	1.50	14.36
21	60.44	15.86	1.21	14.65
22	45.79	15.86	0.92	14.94
23	30.85	15.86	0.62	15.24
24	15.61	15.86	0.25	15.61
		<hr/>	<hr/>	<hr/>
		\$380.64	\$80.64	\$300.00



Second Session—Twenty-sixth Parliament

1964-65

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 14

TUESDAY, FEBRUARY 23, 1965

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESS:

Mr. Douglas D. Irwin, C.A., Financial Consultant,
Ontario Select Committee on Consumer Credit

APPENDICES

- Q — Corrected Brief from Mr. Douglas D. Irwin, C.A.
R — Table of Payments (Retail Instalment Sales Contracts)

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand

Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—11.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons,
Monday, March 9, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved,
—That a Joint Committee of the Senate and House of Commons be appointed
to continue the enquiry into and to report upon the problem of consumer credit,
more particularly but not so as to restrict the generality of the foregoing, to
enquire into and report upon the operation of Canadian legislation in relation
thereto;

That 24 Members of the House of Commons, to be designated by the House
at a later date, be members of the Joint Committee, and that Standing Order
67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by
the Joint Committee on Consumer Credit at the past Session be referred to the
said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records
and examine witnesses; and to report from time to time and to print such
papers and evidence from day to day as may be ordered by the Committee and
that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with
this House for the above purpose, and to select, if the Senate deems it advisable,
some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,
Clerk of the House of Commons

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday,
March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the considera-
tion of the Message from the House of Commons requesting the appointment of a
Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable
Senator Lambert:

That the Senate do unite with the House of Commons in the appointment
of a Joint Committee of both Houses of Parliament to enquire into and report
upon the problem of consumer credit, more particularly, but not so as to restrict
the generality of the foregoing, to enquire into and report upon the operation
of Canadian legislation in relation thereto;

That twelve Members of the Senate to be designated by the Senate at a
later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the
Joint Committee on Consumer Credit at the past Session be referred to the
said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hale, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof.”

LÉON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons,
Wednesday, June 10th, 1964.

“On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.”

LÉON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons,
Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons,
Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

LÉON J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons,
Monday, November 23rd, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills has been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, February 23, 1965.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), and Smith (*Queens-Shelburne*), and *House of Commons:* Messrs. Greene (*Joint Chairman*), Chrétien, Macdonald, Marcoux, Saltsman and Scott.—8.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

A corrected brief submitted by Mr. Douglas D. Irwin, C.A., Financial Consultant, Ontario Select Committee on Consumer Credit was ordered to be printed as appendix Q to these proceedings.

A Table of Payments (Retail Instalment Sales Contracts) submitted by Mr. Douglas D. Irwin, C.A., Financial Consultant, Ontario Select Committee on Consumer Credit was ordered to be printed as appendix R to these proceedings

The following witness was heard:

Mr. Douglas D. Irwin, C.A., Financial Consultant,
Ontario Select Committee on Consumer Credit.

At 12.55 p.m. the Committee adjourned to the call of the Chairman.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, February 23, 1965.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

Co-Chairman Mr. GREENE: Gentlemen, I see a quorum. First of all, I would like to inform the committee that your chairmen have authorized that a letter be sent to the family of the Late Senator Robertson (*Kenora-Rainy River*), who was a member of this committee, offering our commiserations.

We have with us today as our witness Mr. Douglas D. Irwin, C.A., Financial Consultant to the Ontario Select Committee on Consumer Credit. There is no brief here today, but you will note that Mr. Irwin's brief was printed in the proceedings of this committee No. 11 for Tuesday, December 1, 1964.

Mr. URIE: We do have copies of the brief.

Co-Chairman Mr. GREENE: Oh yes, we do have copies of the brief before us, and also copies of the table.

On a motion duly moved and seconded, witness' table incorporated in today's report of proceedings. (See Appendix "R").

Mr. SCOTT: Is that the name of an actual company?

Mr. IRWIN: No, that is just made up.

Co-Chairman Mr. GREENE: The National Liberal Federation Finance Company!

Mr. SCOTT: I didn't want to say that, but I hope that is on the record.

Co-Chairman Mr. GREENE: Do you want to go through your brief, Mr. Irwin?

Mr. IRWIN: Should I read the brief?

Mr. GREENE: You do not need to read it.

Mr. URIE: I think the brief is so useful to the members of the committee that it would be wise if Mr. Irwin—whether he reads it or not—were to go through it in considerable detail. I think it is very important to the deliberations of the committee at this point.

Mr. MACDONALD: Particularly the mathematics.

Co-Chairman Mr. GREENE: Yes, particularly the mathematics.

Mr. Douglas D. Irwin, C.A., Financial Consultant, Ontario Select Committee on Consumer Credit: Before I start, I would like to make a brief statement. I have been and still am Financial Consultant to the Ontario Select Committee on Consumer Credit, and we have been meeting for nearly two years now, investigating all these problems, but we have not as yet written a report, nor have we reached any final conclusions. So, while I have the permission of the chairman of the Ontario committee to appear before you, I wish to make it

plain that I am speaking as an individual and am not representing the views of the Ontario committee—at least, not at this moment. Whether these thoughts I express to you will be finally accepted by the Ontario committee, I am not prepared to say.

I would like to explain also, in preface, the background of this submission. It was prepared at the instigation of the Ontario Select Committee on Consumer Credit in an endeavour to evaluate for the committee the validity of many representations that have been made to our committee by lenders, which submissions purport to claim it is mathematically difficult and administratively burdensome for lenders to be required to state to the borrower their finance charges in terms of a percentage rate per annum. And this process is an endeavour to evaluate the truth of these claims.

You will find that this goes into some detail on the mathematics of the problem and the administrative problems of reaching a result and being able to state a rate per cent. I hope you will bear with me while I make one other comment, that in attempting to evaluate this problem I have avoided here the actuarial formulae and calculations that lead to the results. I think it would be fruitless to have gone into the build-up of the mathematical calculations.

I have also kept in mind one important aspect of this, and have attempted to avoid mathematics for this reason; that I wanted to keep in mind that the person who ultimately would be vested with the responsibility of stating the rate on the contract would be some clerk or salesman, and I feel that there is some, indeed, a good deal of validity in the claim of the vendors that the salesmen or clerks are not and should not be required to be equipped to make long involved mathematical calculations. The end result has been to find a means by which this can be avoided, while at the same time the end result of the statement of rate will be accurate according to actuarial formulae.

Mr. Chairman, the subject matter herein is concerned with mathematical and administrative problems involved in the determination and disclosure of the cost of borrowing expressed as a rate per cent of the principal sum.

The committee has received representations to the effect that: (a) in certain cases it is difficult if not impossible to determine, accurately, the cost of borrowed funds in terms of a rate per cent per annum; (b) that if such a disclosure were required, serious administrative difficulties would be created; and (c) that such disclosure would not be comprehended readily by the borrower.

Certain other arguments in opposition to such disclosure have also been advanced: (a) that, in certain cases, the charges made are not interest but represent service costs and other expenses; (b) that disclosure would result in a transfer of cost from money costs to the price of the article.

This memorandum does not deal with considerations of public policy but is confined to an assessment of these representations as they may bear upon mathematical and administrative feasibility.

Definitions and Assumptions: It is necessary to define certain meanings and comments on certain assumptions which commonly occur:

Interest vs. cost of money—The cost of borrowing money (or credit) includes values in respect to: (1) pure interest; (2) risk; (3) service costs; (4) direct outlays (e.g., legal fees).

Pure interest is an economic concept of the value attached to the use of money, *per se*. It is a rent paid by the borrower to compensate the lender because he must defer the satisfaction of wants which immediate use of the money would otherwise bring.

Pure interest rarely exists. Perhaps the closest approach to pure interest is found in the case of a government treasury bill in regard to which service cost, direct costs and risk are, practically, nonexistent.

It is argued that the costs of borrowing money should not be called interest because of the presence of the other factors in cost. However, the term interest is in common use (e.g., commercial bank loans and by insurance companies in respect to mortgages) even though factors other than pure interest are present. On the other hand lenders on conditional sales contracts abjure use of the term interest on the grounds that their charges are for service.

These different viewpoints appear to be matters of degree rather than of substance in so far as, except where pure interest occurs, every charge for the use of money includes, in some measure, at least three of the elements mentioned above.

I wonder if there has been a page missed out in the reproduction, because I have been reading from my own brief, and I have been keeping tabs on myself in reading the brief presented to the committee. After the words "elements mentioned above" my next paragraph reads as follows:

The "non-interest" contention may, perhaps, be resolved by avoiding any reference to interest and referring only to the "cost of borrowing" or "the cost of money".

If this premise is accepted we may escape the philosophical argument and concentrate on the problems of expressing the "cost of money" as a percent per annum (or per period) related to the amount of the principal advanced or to the balance of the principal unpaid from time to time.

In this memorandum, for purposes of illustrations and calculation, all of the four elements of cost are deemed to be included.

Mr. MACDONALD: That is not included in this brief, and it is not included in the report either.

Co-Chairman Mr. GREENE: They made the report from the original brief.

Mr. URIE: Go ahead.

Mr. IRWIN: The point here is that lenders will attempt to get you into a long dissertation as to whether certain finance charges are interest or not, and this argument can go on forever and ever, and I think the sensible solution to what is in fact an academic discussion is not to call it interest.

Now, back on your copy we come to methods of calculation.

Co-Chairman Mr. GREENE: May I ask this before you go on? The minute you get into that aspect and call it finance charges, and never mind whether it is interest or not, you are then in a position where you do not know whether it is a provincial jurisdictional or a federal problem. That is one of the pitfalls, is it not?

Mr. IRWIN: Not being a lawyer, I am unable to comment on that aspect.

Methods of calculation: There are several methods used to calculate cost of money as a rate per cent. Those in more or less general use are:

1. Constant ratio—a short-cut formula which gives an approximation of the rate but which becomes more inaccurate as the terms of the contract are longer and the ratio of finance charges to principal becomes higher.

Mr. REID: Do you have an example of that?

Mr. IRWIN: I could give you the formula. I have it worked out. The constant ratio formula is:

$$I = \frac{2 (pp) \times FC}{P \times (N + 1)}.$$

To interpret that the "pp" on top of the line represents the number of payments in a year. It doesn't matter whether the contract is for 24 months, six

months, 12 months, or 18 months, if there are in effect 12 monthly payments then it is: $2 \times 12 \times FC$, or the total charges on the contract. The principal sum plus the charges equals the amount to be paid.

The capital P under the line is the principal sum borrowed and the " $N + 1$ " is the number of periods. If you have a 12-month contract you would rewrite that formula as follows—suppose the principal sum is \$100 and the finance charges are \$20 and it is payable over 12 months you would calculate this as follows:

$$I = \frac{2 \times 12 \times 20}{100 (12 + 1)}$$

If you work that out you will find you will get a rate somewhere in the order of 37 per cent.

Mr. MACDONALD: That was the formula submitted by the Ontario Credit Union League when they appeared before us.

Mr. IRWIN: It is a fairly simple arithmetical problem to work out, but it isn't accurate.

What I am dealing with now is how to evaluate these various short-cut formulae because one of the contentions of the lenders is that you cannot get everybody using the same formulae and therefore you get different results and the whole thing is useless and cannot be done accurately.

2. The Direct Ratio Formula is a short-cut formula but still subject to margins of error which could lead to dispute.

The constant ratio formula is expressed as follows:

$$I = \frac{6 \times pp \times FC}{3P \times (N + 1) + FC \times (N - 1)}$$

Now, you have the formula:

$$I = \frac{6(pp) \times FC}{3P(N+1) + FC(N-1)}$$

That is a formula which may be applied to the terms of \$100 principal and total financing of \$20, so the total contract is \$120 and it is payable over 12 equal monthly instalments. You can now substitute—6 times 12—because there are 12 payments in a year—times 20, which is the finance charges, divided by 3 times P ,—in this case being 100—plus N plus 1, (or 12 payments plus 1) which is 13, plus 20 dollars again, and then you close the bracket, and 12 minus 1, which is 11. Under that formula you will get a rate of about 35 per cent.

As you will see, if you are using the constant ratio formula for this determination at the rate of \$100 borrowed and \$120 repaid over 12 months you may get a rate that is somewhat higher than if you use the direct ratio formula, the difference being sufficiently great so that they are not comparable, in my opinion.

The direct ratio formula is very close to the formula which is generally accepted by the mathematicians as being the correct one, and that is the actuarial one which we will get to in a moment.

3. The Add-on and Yield formula—this is where a percentage is added on to the principal. These forms are used by those who expect a certain percent yield return which is converted to a simple arithmetical add-on by use of tables. The tendency is to round-out the add-on percent to even dollars and to apply the add-on dollars to ranges of loans within say \$10 intervals. The actual rate charged may vary significantly between that applicable to the loan at the lower end of the range and that applicable at the higher end of the range.

Mr. MACDONALD: Can you generalize at all as to who would use that system?

Mr. IRWIN: Yes, this is in almost universal use by vendors of goods—appliance dealers and car dealers. I obtained a number of these from actual lenders. I have not one that I can give you, but I can supply you with one if you wish it. Here is one, and it is a table that would be used by a clerk. It has columns for six, eight, ten, twelve, eighteen and twenty-four months, and a middle column for the unpaid balance. Under each of the contract period columns—the ones for six, eight, ten, twelve months, and so on—there are figures that show the charge to be added and the monthly payment to be made in relation to the balance. For instance, if a balance is from \$101 to \$110 and it is a 12-month contract, they would charge \$16 finance charges, and the monthly payment would be \$10. Under that column they say that this is an add-on rate of 8.50 per cent, but this is only very, very approximately true.

This table is supposedly constructed as an add-on table—that is, for every 12-month contract they are adding on 8.50 per cent to the principal balance at the beginning. They work out these finance charges to be added on and the monthly payment to be made in accordance with the add-on of 8.50 per cent. It is a very, very approximate table because in a range of balances from \$10 to \$110 they still add-on the same amount, and you pay the same monthly charge, so you get a variation in actuarial rate from the low range on that particular 12 month contract to the high range. On a balance of \$101 you are paying 28.37 per cent, but on a balance of \$110 you are paying 25.77 per cent, so that these are very, very approximate.

Also, when they are saying that they have built this table on an 8.5 per cent add-on they round it out so much that it may become 9 per cent in one case and 10 per cent in another, and so on. You get a very substantial variation in the true rate by using such a table. Later on I will come to another variation of the add-on which has some merit to it.

4. There are many variations of the foregoing methods which are subject to the same criticisms. Many lenders develop their own formulae. That is, they are only approximate, and are open to considerable variation. Then, they have half a dozen other formulae that I have come across in which the lender simply develops his own rate to suit his own purposes. These go on *ad infinitum*, and there is no use in my giving examples of them.

5. Simple interest calculations on a daily, yearly or other periodic basis with or without compounding.

6. Actuarial method: This is a general term describing methods used by actuaries to determine rates of percent employing higher mathematical formulae. For practical use, standard tables, derived from these actuarial formulae, have been developed and are readily available. In addition actuarial tables, to suit special purposes, may be obtained from several publishing houses and actuarial organizations. In fact such special tables are in general use by lenders.

The Financial Publishing Company of Boston, of which you have heard, I am sure, produces these tables on demand. Here is an interesting little booklet which is actually put out by the Financial Publishing Company of Boston. It is advertising material, but it illustrates how they go about producing a table for you. If you state what you want they will produce a table which is actuarially correct. If you want a 10 per cent yield they say: "We will give you a table that is exact to a 10 per cent yield. If you want a discount we will give you a table that is a true discount table, or if you want an actuarial table we will give you an actuarial table". This shows the comparisons. They produce these at a very nominal cost, and they are quite accurate. I have checked them out and tested them out, and they are absolutely accurate. So, you can get any table you want for any purpose you want for any rate you want. It is no great problem.

I shall now go on to the accuracy of the methods.

Co-Chairman Senator CROLL: By the way, is there anybody in Canada who is doing something similar to that?

Mr. IRWIN: I do not know of anybody in Canada.

Mr. URIE: There is a firm in Ottawa called Financial Computers & Publishers Ltd. which is doing this right now.

Mr. IRWIN: That is interesting. I.B.M. will turn these tables out for you overnight if you give them the right specifications. There is no great problem in that.

Accuracy of methods: It has been submitted that if you ask six different people to calculate the true rate of interest in regard to the same loan contract you may get six widely different answers. The inference is made that this demonstrates the futility and inaccuracy of making the calculations at all.

This is a standard argument put up by lenders, and this criticism is only a half-truth.

Because of the number of different methods it follows that if each of the six calculators use a different method different results will ensue. Furthermore some of the calculators may make different assumptions as to:

- (a) Exclusion of some of the elements of the finance charge (for example, legal fees)
- (b) Compounding of interest.

In regard to (a) it is obvious that for purposes of comparison, none of the factors may be left out of calculation.

In regard to (b) compounding should not be assumed unless it does, in fact, take place.

Certain tables are available which are based upon compounding at periodic intervals, that is, daily, weekly, monthly, quarterly, half-yearly, and yearly. These tables are, in turn, sometimes applied incorrectly in respect to contracts which in reality do not include a compounding feature. When this is so the rate derived from the tables will not reflect the true rate applicable to the contract.

As an aside, I checked myself out by reference to other people, giving each of them the same problem and simply asking them to come up with the rate. Their rate sometimes differed from mine. Then I would find they were using a compound table, say a half yearly compound, and in using one where the particular compound did not occur, you would get a difference. So the compound tables are very frequently and incorrectly used.

Compounding occurs only if interest is charged but is not paid (i.e. interest is carried forward). In most instalment payment contracts, for example, interest is paid as it accrues and no compounding actually takes place. It is a question of fact in every case whether or not compounding occurs. Lack of precision in regard to compounding may be corrected by exact stipulation in the contract.

In presenting a problem for solution to six different calculators the following should apply.

- (a) the terms of reference must be exact and identical for each calculator.
- (b) each calculator must use the same method.

If these conditions are met the six calculators will produce six identical answers (E. & O.E.) to the same problem. Similarly these conditions being applied to six different problems the six results will be mathematically comparable.

In other words, you could use even a constant ratio formula, if all six calculators used it. In the question of the use of a constant ratio formula,

you will get six identical answers, even to three places of decimals. It is only if one is using one type and another is using a different type that you will get different answers.

It follows from the above that if all lenders were required to use the same method of calculating the costs of borrowing as a rate per cent a borrower would be enabled to make a valid comparison between the rates offered by lender A or lender B for an otherwise identical loan.

Legislation, if enacted, covering disclosure of costs of money as a rate per cent would need, therefore, to establish a common terminology and a common basis for calculation, of universal application.

I think that actually is a key to the whole thing.

The next paragraph should be headed "Selection of Method". It says:

In respect to mathematical methods loan arrangements may be classified into general types:

1. Contracts requiring specified payments of principal and specified rates or amounts of interest (that is, cost) each paid separately e.g. commercial bank loan, non-amortized mortgages.

This is where you borrow the principal sums for a stated time and you pay the interest at the end of the time, separately.

These are essentially simple or compound interest problems resolvable by arithmetic.

2. Contracts requiring blended payments of principal and interest e.g. conditional sales contracts, amortized mortgages. These are resolvable by use of actuarial methods.

3. Contracts which are combinations of 1 and 2.

That seems pretty simple, but with all the variety of contracts, I think you will find that there is no contract that does not fit one of these different approaches.

As will be explained, the revolving credit account is not readily reducible to simple mathematical formulae.

This is the one big exception which we will discuss later. I might say that the revolving credit account method is capable of solution by one of these methods, but it would have to be done every day, and even hourly, because of the number of transactions; and I think it would be unreasonable to have this done.

In respect to all other loan contracts a rate per cent may be determined by methods 1 or 2, or a combination of both.

Review of the various methods available leads to the conclusion that use of actuarial methods only provides means of calculation having universal validity in cases where simple interest calculations are impracticable.

An important point to observe is that while it may be a difficult mathematical exercise to deduce the true rate per cent from a stated case wherein the amount of finance charges is given but in which the rate is unknown to the calculator—that is, the borrower in the real sense—it is a relatively simple exercise for the lender to select and state the rate to begin with and to derive, therefrom, the total finance charges exigible.

I think that another page has been missed out here. I wonder if I might read from my own notes and you can tell me when you do not see it in your copy.

Co-Chairman Senator CROLL: Yes.

Mr. IRWIN: Forward calculation from stated rate to total charges is infinitely less difficult than the mathematical difficulty of deriving an unknown rate from the stated charges.

This is a very important point, because this happens so many times in our committee. Some lender arrives and says, in effect, "if you are so smart, here is a problem tell me what the rate is." You cannot do this. It is ridiculous. They are asking you a riddle. They say: "Here is the total amount, the finance charges, the number of payments on the contract; now, what is the rate?" That amounts to asking a conundrum which has to be worked out. You have to use algebra to get back to the rate. Then they say, "How can you expect a clerk to work it out, if you cannot?" Frankly, gentlemen, this is ridiculous. We are not asking riddles. It is quite a difficult thing to discover the rate from a statement of the contract, but it is a far different thing to start with the rate you are going to use and then find the finance charges.

Now I deal with the actuarial method. I think this is the missing part. We need not belabour the mathematics of simple interest calculations but the actuarial method requires some explanation.

Instalment contracts with blended payments of principal and interest (e.g. an amortized mortgage, a conditional sales contract) are mathematically equivalent to annuities in one form or another.

The principal sum is in effect the present value of an annuity to be received.

In other words, if you are lending someone \$100 and expect him to pay back \$10 a month for 12 months, the principal is the present value of an annuity of \$10 for 12 months.

Actuarial tables express this as the present value of an annuity of one with interest payable in arrears. That "one" is a unit: it may be a dollar or a cent. If the rate per period is unknown but all other factors in a problem are known, the rate may be determined from these tables.

From these one can calculate the rate in each type of loan contract. If you can find the rate from a stated case, then you can also determine the rate beforehand, and work out the finance charges.

Standard tables of this type, however, are produced on the basis of intervals in rate of $\frac{1}{8}$ of 1 per cent per period in the lower ranges, intervals of $\frac{1}{4}$ of 1 per cent per period in the middle ranges and $\frac{1}{2}$ of 1 per cent per period in the upper ranges.

In other words, standard tables available to actuaries in life insurance companies and so on are built with these ranges, and you find that these are identical to those which may be used for building a table for an instalment sales contract.

Where compounding does not occur a monthly rate of 1 per cent may be expressed as a nominal annual rate of 12 per cent chargeable monthly. The next higher rate of $1\frac{1}{4}$ per cent per month becomes 15 per cent per annum—a difference of 3 per cent per annum.

Obviously, the actual rate of a given problem might be somewhere between 12 per cent and 15 per cent, and the use of either rate would be substantially inaccurate.

In the interest of greater accuracy it is necessary to create actuarial tables at very much narrower rate intervals.

At this point I refer to two tables:

1. Actuarial table at 1/100 of 1 per cent interval.
2. Table of the Easy Credit Finance Company.

The writer has, therefore, evolved and caused to be produced actuarial tables for the "present value of an annuity of \$1 payable in arrears" at rate intervals of 1/100 of 1 per cent per period (e.g. month). These tables result in annual rates moving at intervals of $\frac{1}{8}$ of 1 per cent per annum. The margin of error for the annual rate cannot therefore exceed $\frac{1}{8}$ of 1 per cent per annum. The range covered is from .005 per cent per period ($\frac{1}{2}$ of 1 per cent) to .0257 per cent per period ($2\frac{1}{2}$ per cent—) and from 1 to 120 periods.

However, it is not my intention that these tables would actually be used by a clerk. The actuarial tables may be used to prepare working tables which the clerk would use. I have brought along a sample of such a working table for 12 months contracts at 18 per cent per annum under the name of The Easy Credit Finance Company. The clerk would prepare the contract in all respects as he does now (using an add-on table) but in addition would also disclose the rate of 18 per cent. All calculations in the 18 per cent table are accurate to within $\frac{1}{16}$ of 1 per cent of the true 18 per cent rate and if the final payment is adjusted by a maximum adjustment of 60 cents even this margin of error is eliminated.

Mr. MACDONALD: I think there is an omission from the text at that point.

Co-Chairman Mr. GREENE: I wonder if we could get this reprinted properly.

(See Appendix "Q")

Mr. MACDONALD: I am referring to your interpretation of the margin of error.

Mr. IRWIN: Whether or not the tables are refined to the nearest cent or an adjustment is made, the actual rate will still be within the one-sixteenth of 1 per cent margin of error.

These are the tables which, using a calculator and an actuarial formula, I started to prepare, which had rate intervals of not more than one-one hundredth of 1 per cent per period. I figured I would have to make 50,000 calculations to demonstrate the point. I made 50 the first day and gave up. Then I went to the I.B.M. and told them my problem. They had actuaries on their staff, and in two days we had these tables all produced.

Mr. MACDONALD: I take it that these are not generally available?

Mr. IRWIN: No. These are the only ones of their kind in existence, so far as I am aware. Not that there is anything secret or so terribly involved about it. It is just that—

Co-Chairman Senator CROLL: It costs money.

Mr. IRWIN: It costs money, and you just cannot use the available table to get out the rate on certain problems. However, I developed these, which show a narrow interval to find the rate, and the annual rate cannot be different from the true actuarially calculated rate by more than one-eighth of 1 per cent per annum, which I thought was a close enough refinement. However, it is no problem at all to bring the margin of error within one-sixteenth of 1 per cent as given in these pages. The point is that if you were to try to calculate any one rate in here from the original formula it would probably take half a day, but to move in progression is no problem for a machine, once it gets the right program into it.

Getting back to the earlier question of can you produce a table. That is no problem at all.

Now, the use of these tables looks rather formidable. There are some 45,000 calculations in here, showing the monthly rate and the annual rate for monthly rates of a half of 1 per cent per month to $2\frac{1}{2}$ per cent per month, or from 6 per cent per annum to nearly 31 per cent per annum, and any combination of payments under the contract of from one month to 120 months. I restricted it to these limits because they cover the retail instalments sales contract and most second mortgages. However, if you wanted to get first mortgage tables from 25 to 30 years, all you have to do is to extend the tables with higher rates and a greater number of periods, and you have the same thing.

These tables have been produced experimentally. They could be further refined to produce annual rates with margins of error of $\frac{1}{16}$, $\frac{1}{32}$, $\frac{1}{64}$ etc. of 1 per cent per annum.

Now, I want to make this quite clear. These tables would never be used by a clerk. If you want to prepare a table, all you have to do is to look in these basic calculations and prepare a working table from them. Also, these calculations could be used by a government agency, for example, to verify any table anybody wanted to use to ascertain whether their rates were correct; or if you wanted to find a rate from a stated case, not knowing the rate, then you can develop it from here. So these are not the type of tables I would expect to become into general use. You might call them the yardstick, and they might be used to evaluate any tables that are used.

Disclosure within an accuracy of within one-eighth of 1 per cent per annum might be considered sufficiently valid for purposes of comparison herein.

Under the heading "Use of the tables," I deal with all the types of loan contracts that I think exist, in one form or another, and how to use the table to find a rate.

In the case of blended payment contracts (or aspects of contracts), the rate may be found, using the tables as follows:

A. Determine:

- (1) The principal advanced
- (2) The aggregate payable
- (3) The number of payments

B. Multiply the principal by the number of payments ((1) \times (3) above) and divide by the aggregate ((2) above)

C. A factor evolves from step B which factor may be found in the tables in a column of figures giving the monthly and the annual rate per cent applicable to the number of payments in the contract.

The writer does not suggest that a clerk making out a contract form should be required to go through all of these steps. Administrative burdens should be kept to a minimum.

Business experience, however, indicates that the clerk now performs step A with tables now in use. The clerk could also be provided with actuarially based tables which include steps B and C.

Here, for example, is a table having a twelve months column based on an add-on rate, which, as I have said, was substantially inaccurate. This page (referring to the table for the Easy Credit Finance Company) would take the place of that column (in the add-on table) and still show the balance of finance charges and the amount to be repaid.

Now, the clerk does not have to do any calculation. This table (The Easy Credit Finance Company) has been developed from this other table (the actuarial table), so that the clerk simply records on the contract, the monthly payment, the total of finance charges, and reads from the top of the column 18 per cent and that is the rate charged. There is nothing further to do, and he has given the customer an actuarial rate without doing any calculation. So the clerk would perform essentially the same task, but his new tables would not only provide the information presently given to the borrower as to principal, aggregate, finance charges and payment per month, all in dollars, but the rate per cent per annum as well.

Now we deal with several problems of various types of loans, about which I am sure you have heard:

Specific applications. The classifications and subclassifications of loan contracts may now be analyzed and methods suggested for determining rates applicable to each:

Small Loans Act. The rates permissible by law are: 2 per cent of the first \$300; 1 per cent per month on the next \$700 and $\frac{1}{2}$ per cent per month on the next \$500.

Determination of the overall effective rate for any given loan, by deduction, is a relatively difficult assignment. However, in consultation with one of the lenders under this act it was found that their present tables were readily adaptable to the declaration of a yearly rate for all categories of loan offered by them merely by precalculating the rates and adding them to their present schedules. Very accurate and comprehensive tables are used by this lender which comply exactly with the Small Loans Act for any amount of principal outstanding for any number of periods and provide ready calculations in regard to late, prior or skipped payments.

The writer has extracted part of this lender's published schedule of charges and has added a column to show the effective annual rate per cent calculated actuarially. The clerk in preparing the contract would merely read off and disclose the rate along with the information already provided by the tables (*See Appendix I*). Again, this is a representation of the small loans schedule as used by one of the lenders. You cannot see this, but this is a table from this finance company, and these are the actual loans they make, the ranges of loans, which they offer at six months, 12 months, 15 months, 20 months, 36 months, and so on. The exact amounts they will lend run you anywhere up to \$1,200. They do not show the rate, but on the contract, under the Small Loans Act, they have to state that the finance charges do not exceed 2 per cent per month and, in brackets, 24 per cent per annum, etcetera. But in any particular loan, where you had an odd combination of these permissible charges—for instance, a \$1,219.82 contract, which is the last one on Appendix I, on the left-hand side, column 2, they also give you the monthly charges (column 1), but they do not give you the rate, which they could easily do. On the very outside column (column 7) you will see the annual rate worked out actuarially from these tables. So, if you borrow \$1,219.82 for 12 months from that company you would be charged an effective annual rate of 17.40 per cent. This is absolutely no problem, and they quite readily admitted there was nothing to it.

MR. SCOTT: Is that because they are using very accurate and extensive tables?

MR. IRWIN: Yes, in their case it is true. I think it demonstrated, however—and I do not want to quote their name because I am going to say something else—the association representing the small loans people said it was impossible, and yet when you go and talk to them privately and work this thing out with them they say, “Fine. Sure it can be done, but we do not want to do it.”

MR. URIE: Did they ever change their submission after this particular table was shown to them?

MR. IRWIN: No, we never asked them, back, but I did send this to them.

MR. MACDONALD: They will be coming to appear before us in about a month's time.

Co-Chairman MR. GREENE: Do you think we should put them under oath?

MR. MACDONALD: Get a couple of Mounties in uniform at the back.

Co-Chairman Senator CROLL: It does not seem to frighten anybody any more.

MR. IRWIN: Actually, the small loans case is probably the simplest case in which to make the conversion. Of course, I have not reproduced their whole table, but they have about half a dozen other columns on their table and all you would have to do would be merely to add one more column showing the interest rate opposite each variation of loan and term.

MR. URIE: And the clerk actually does that in their office now?

MR. IRWIN: Yes, you come in and you want to borrow. You decide on the amount, and so on, and say, “I want a 12 months contract.” She says, “Fine,

I will look up this table. You want to borrow \$1,219.82 for 12 months. I am going to charge you \$111 each month."

She fills out the contract giving the amount to be repaid, the monthly repayment, the aggregate to be paid, and so on, and there is a general, printed statement which simply says, "The finance charges on this contract do not exceed"—and then they quote the act. But in this case they have three columns under the 12-month contract and they would have a fourth column which would state the rate over the entire life of the contract. The clerk would not do any calculation but would read off the figures from the table, and here would be another line on the contract saying, "This represents a rate of 17.40 per cent per annum." She would not have to do any calculation whatever.

Conditional sales contracts. Several retailers were requested to furnish information as to their present methods of determining finance charges and examples of actual loan contracts in their files. This is rather amusing because a number of these are clients of mine, and they knew what I was trying to do. I said, "Give me the most difficult ones you can dig out and make them as difficult "as possible." They co-operated gladly in that regard. I wanted to test out whether or not I was on the right track, and I am quite satisfied I was.

In all cases these contracts were found to be reducible to annuity problems and rates could be determined from the present value tables; that is the actuarial tables. Tables are presently in use based on the add-on principle, but you recall that these had a range of 101 up to 110, and the annual per cent rate is substantially different for the low range than for the high range.

Revised tables could be prepared showing effective rates and within narrower ranges of loan balances, based on actuarial tables. The procedures to be employed to determine an effective rate per cent are demonstrated in respect to an actual loan contract as follows. This is an actual loan supplied to me by a lender under the conditional sales arrangement:

Amount borrowed	\$ 256.77
Finance charges added	45.00—Taken from the add-on table.
<hr/>	
Aggregate to be paid	\$ 301.77
Payments required are:	
17 at \$17.00	\$ 289.00
1 at \$12.77	12.77
<hr/>	
	\$ 301.77

They always adjust that last payment, which is a practical thing to do. There were 18 payments at an average of \$16.76 (5) equal to \$301.77.

If you use this formula I gave you, P times N over A equals the factor, you multiply \$256.77 by 18 which produces a figure of \$4,621.86. Then you divide by \$301.77, and that equals a factor of 15.315836. Then you look up in this actuarial table under the 12-month contract, and you get a rate of 21.12 per cent per annum. Now, that factor is not actually on this table in itself, but it falls between two other factors, and the true rate, using the actuarial formula, is slightly different, but is still within the range of 1/8th of 1 per cent accuracy.

Note:—The exact rate in the above problem is slightly higher than 21.12 per cent because the last payment of \$12.77 is considerably below the level of the other payments. In fact, the exact rate was 21.36 per cent per annum. This inaccuracy may be eliminated—and this is another important point—if regulations were to require that no payment might differ from the average of all payments by more than, say, 10 per cent.

Now in this table—the Easy Credit Financial Company table—the final payment, in some cases only, may have to be reduced by as much as 60 cents.

The reason for that is that I have worked out the monthly payments at five-cent intervals, and 5×12 is 60. But this is less than one-tenth of one per cent of the average payment, which does not affect the accuracy beyond one-eighth of one per cent per annum. It is just a convenient method of working it out. It seems to me that a possible margin of error of not more than one-eighth of one per cent per annum from the true actuarial rate is sufficient for comparison purposes.

Mr. URIE: I notice the next item you deal with is mortgage loans. Since that is beyond the competence of this committee I wonder if I might suggest that you should skip that. However I do not wish to interfere with your presentation.

Mr. IRWIN: You are not interested in that?

Mr. REID: We are indeed interested, but we cannot deal with it.

Mr. IRWIN: I will just mention that this is one of the difficult things because of the bonus feature. I will skip that, then, and go on to page 17. Here we deal with skipped payment contracts. This is another big feature when the question is asked what to do about the poor farmer or the poor school-teacher who pays what he can when he can. How can you possibly work out a rate in that regard and how can a salesman or clerk working under adverse conditions work out the rate and the charges where default occurs in the contract?

Skipped payment contracts: These problems are of two types—payments defaulted by borrower—deferred payments written into the contract. Defaulted payments pose no significant problem. Once the effective rate is known (and in most cases it is known to the lender and if not known it may be derived) that rate may be applied to the principal included in the defaulted payment for the number of days of default and thus determine the additional charge in dollars. Deferred payments written into the contract present no problem if the rate is known to the lender. The additional interest charges in respect to the deferred payment may be calculated as in the foregoing paragraph. If the rate is not known it must first be derived. If we are required to derive a rate from a stated case the mathematical problems are more difficult.

Example:

Conditional Sales Contract

Automobile sold to a teacher

Amount to be financed	\$2,400.00
Finance charges	460.00

Aggregate	\$2,860.00
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Payable \$100.00 per month from February 1962 to September 1964 both inclusive except July, August, September 1962. There are 28 payments of \$100.00 and 1 payment of \$60.00.

Average payment is \$98.62 per month.

Procedure:

1. Factor the account in regard to skipped payments—3 payments of \$100.00 each, each deferred 24 months is equivalent to \$7,200.00 for 1 month.
2. The interest charged on \$7,200.00=X
3. $\$2,400.00 = \text{p.v. of } \left(\$98.62 - \frac{X}{29} \right) \text{ for 29 mos. at } i\%$
4. We may solve by algebra or by inspection

5. Using inspection

— Assume a rate of 1% per month

Interest on \$7,200.00 is \$72.00 for one month at 1%

Reduce aggregate and charges by \$72.00

Revise problem:

Principal	\$2,400.00
Charges	388.00
	<hr/>
Aggregate	\$2,788.00

$$\text{Factor is } \frac{\$2,400.00 \times 29}{\$2,788.00} = 24.96413199$$

The nearest table rate here is 1.03 per cent per month or 12.36 per cent p.a. In actual fact the rate used was probably 12 per cent p.a. with the charges rounded off to the nearest \$10.

This problem is one of six presented by the Automobile Dealers Association, and they used these problems to demonstrate how impossible it was to work out the rate. The fact of the matter is that the rate is not very difficult to work out at all.

The next one is also taken from their submission. It deals with a truck sold to a farmer. I will skip over the mathematics of the problem and simply say that the rate turned out to 19.7136 per cent per annum.

A common alleged criticism of rate disclosure is that the salesman or clerk would find it extremely difficult to cope with the problem of disclosure and additional charges on interrupted contracts. The foregoing illustrations are of this type and show that a rate is determinable. The office of the lender should and does predetermine the rate of charge and furnishes the salesman or clerk with tables, use of which plus elementary arithmetic provides the extra dollar charges on skipped payments.

The problems of the salesman or the clerk are very much over-emphasized. In practice additional charges on defaulted payments are ignored in most cases. The lender relies on his title rights and collection procedures and accepts the very slight loss of interest rather than make marginal calculations. In cases where deferred payments are written into the contract the additional charges are pre-calculated by table so that the salesman or clerk is not normally required to make individual calculations on the spot.

I make this aside, that throughout all these investigations I perpetually checked out my thinking with actual lenders, and the fact is that these statements are in agreement with what they do in practice. They may make out that they do not know what the rate is, but in fact they all are equipped with very useful tables, and know how to make use of them to get the final figures.

9. Cycle credit accounts

Budget accounts

The budget account is one wherein a purchaser undertakes (at the beginning) to pay off a specific balance over a stated number of months including finance charges.

The rate may be determined in the same manner as applies to a conditional sales contract. However the buyer retains the initiative (with the concurrence of the lender) to alter the contract by:

- (a) buying additional items,
- (b) paying more or less than agreed.

Whenever the borrower thus alters the terms of the contract a new formula develops.

In so far as this initiative is exercised frequently (perhaps monthly) it might be considered an onerous task to impose upon the lender a recalculation of the rate each time the terms of contract change.

Some modification of rate disclosure may have to be considered. One suggestion is a per cent charge based on current month's balance, mid-month balance or average balance.

Revolving credit accounts

These are arrangements whereby the buyer is permitted to carry balances up to a stated maximum and is required to make a stated monthly payment.

The buyer retains the initiative to:

- charge any amount any time
- pay any amount any time

The lender makes a monthly charge based upon the previous monthly balance. A period of grace is allowed in respect to payments received within three or four days after the previous billing date. Otherwise no recognition is given in respect to the varying amounts of credit actually extended from one billing date to the next. Action by the lender to correct or compensate for variations from the original terms are post facto. It has been observed that finance charges expressed as a rate per cent can be very high.

Mr. Chairman, as an aside here may I say that I have deliberately avoided at all times actually quoting how high that rate can be, because it would be unfair, I think, and it would be distorted. But, the rate theoretically can be astronomical under certain circumstances.

The example that I give next is actually taken from the files of a department store, and it is:

Previous balance April 15	\$431.75
Charge at next billing date May 15	\$ 4.95
Payment made April 20	\$331.75

Monthly payment required was \$22.00, but this is completely immaterial. In this case the charge of \$4.95 would still be made even though the payment of \$331.75 reduced the debt balance to only \$100.00 for 25 days of the billing month (April 20-May 15). The rate per cent charged on the \$100.00 for 25 days is exceedingly high.

The opposite may also hold true, and this I might say is not an actual example, although the first one is.

Example

Balance on March 15	Nil
Purchase on March 16	\$431.75
Charge April 15 (based on nil balance March 15)	Nil
Payment April 14	\$431.75
Charge on May 15 (based on nil balance on April 15)	Nil

In this case \$431.75 credit has been extended to the buyer for 29 days at no charge at all.

In such circumstances it is obviously unreasonable to expect the lender to determine the effective rate per cent from day to day.

There is no easy practicable method of resolving this problem by tables or mathematical formulae.

I make one aside again here, Mr. Chairman; when and if department stores and others lending under revolving credit introduce computer accounting it will be quite practicable to do it on a daily basis using an actual true rate, but

until that day comes I think it is virtually impossible to expect daily calculations to be made, and daily calculations are the only effective way of getting a true rate.

Co-Chairman Mr. GREENE: Do you find, Mr. Irwin, that small stores use revolving credit, or is it only the very large stores?

Mr. IRWIN: I found very, very few small stores getting into this revolving credit problem. Apart altogether from the pure mechanics of accounting, you have to have suitable equipment. It would be an intolerable task to do it on a manual basis.

Mr. SCOTT: When the department stores were here they seemed to imply that they really do not make any money on the interest aspect of it; that they used this only to promote sales. Would you have any observation to make on that?

Mr. IRWIN: Well, I will make a comment on it, but it is very inconclusive for this reason—we had the same statement made to us, and in some ways you cannot challenge it, for the reason that when a department stores moves from, say, the ordinary open-end account to a revolving credit account there arises a problem of allocating costs; the problem of how much of your staff time, expenses, and so on should be allocated to the new process. Frankly, this is a very subjective thing. It could be anything, or it could be practically nothing, depending on how the comptroller of that particular store felt about it. So, I avoid this question really because I do not think either this committee or our committee are prepared to go into one of these department stores and conduct an audit, particularly a cost audit. I do not think you can contest what they say. You can form your own opinion. They obviously do not make the charge for the love of it, but when they say they do not make any money out of the charge then it is a very subjective question.

Alternative solutions may be suggested for compliance (at least partially) with disclosure requirements in terms of a rate per cent.

These are:

1. Require statement of a monthly rate per cent (and/or an annual rate per cent) along with or in substitution for dollar monthly charges now given.
2. Require one monthly or annual rate in place of a scale of charges and rates.
3. Extend period of grace (for recognition of payments between dates) to 15 days after previous billing date. (This would substantially reduce variations of actual rate from the stated rate).

I think I am not going beyond my province when I say that the Retail Council has, I believe, already written to you saying that they would not object, or, at least, they would foster . . .

Mr. URIE: That is right; they would favour the extension of the grace period.

Mr. IRWIN: That may be so, but I am thinking that they said they would countenance the stating of the finance charges as a monthly rate per cent.

Mr. URIE: Yes, as a maximum.

Mr. IRWIN: Yes, so they have gone that far, at any rate.

General Observations; Public Reaction:

It has been submitted to the committee by some lenders that:

- (a) the public wishes finance charges to be expressed in dollars
- (b) the public would not comprehend disclosure in terms of a rate per cent.

These opinions appear to be subject to more conclusive verification perhaps by sampling of consumer reaction on a substantial scale.

This has never been done, to my knowledge.

Certain observations may also be made. In regard to:

- (a) disclosure of a rate per cent need not be a substitute for cost stated in dollars but in addition thereto. If the public does, in fact, prefer the cost in dollars it is no way hampered by also being given the rate per cent.
- (b) the cost of borrowing is still being taught in schools in terms of a rate per cent. I have checked this out, and it is true. Many types of loans are still being quoted at a rate per cent, for example, conventional mortgage loans and commercial bank loans. The average householder is likely to have been exposed to quotation of a rate per cent in some instances. For instance, where a person buys a house he may also be expected to have borrowed on a conditional sales contract in regard to which only dollar costs have been stated. If the borrower has understood the meaning of rates per cent as quoted by the lenders of mortgages he might also be expected to comprehend the meaning of rates per cent quoted by lenders on conditional sales contracts. It would seem that common terms of expression in regard to both types of lending contracts would tend to reduce rather than to increase confusion. If expressed in the same terms comparability of various sources of funds becomes possible.

Administrative aspects

Imposition of requirements for disclosure of money costs as a rate % might impose new administrative problems upon business and the impact of such a burden should, no doubt, be minimized.

It has been found that the determination of finance charges is now performed by clerks furnished with readily-interpreted tables. It is submitted that the determination of rates % may also be revealed by use of tables and this being so administrative problems would not be significantly enlarged.

It has also been found that, in almost all cases, existing tables are based on a rate known to the lender. It would appear that disclosure of this rate would not present a major difficulty.

Transfer of money costs

Disclosure of money costs as a rate % may result in a transfer of some part of these costs to the price of the article. Lenders on conditional sales contracts might consider it be competitively beneficial to reduce finance rates and recover any loss resulting by an increase in prices.

This type of adjustment would only be available to retailers who are also lenders and would not be available to lenders of money only. If disclosure of rates were generally deemed to be advisable this method of apparent escape in a limited sector should not invalidate the desirability of such disclosure in respect to all other lending forms.

In the retail field one may assume that a double competition of finance rates and prices would ensue but such competition would eventually result in equilibrium. The buyer would be required to make comparisons both as to rate and price as between vendors but at least such comparisons would be valid. This would be more comprehensible than at present when apparent low prices may be offset by finance charges which are not readily measurable for competitive buying.

SUMMARY AND CONCLUSIONS

1. It is mathematically possible to determine a rate % on all loan situations by use of:

- actuarial methods
- arithmetic methods

2. Practically, it would be an intolerable administrative burden to use the above methods from first principles to determine rates on individual contracts but rates may be readily determined for an individual contract by development of tables of universal application to all contracts of a specific lending classification (with the exception of cycle credit accounts which are subject to special circumstances).

3. Disclosure requirements should be of universal application and the basic methods of calculating rates should be determined for each classification of loan contract.

4. Use of tables would not appear to add a significant administrative burden insofar as tables are presently used, extensively, to determine finance charges.

However, practical considerations suggest that the tables should permit a measure of tolerance when applied to a particular contract. A degree of accuracy of $\frac{1}{8}$ of 1% p.a. has been suggested but this could be further refined.

5. A common language of expression and common criteria of measurement should be sought so that rates be comparable. Pursuant thereto it would appear necessary that all elements of the cost of borrowing in all contracts must be included in the calculations. In the case of blended payment contracts all payments should be nearly equal (say within a variation of 10% from the average).

6. Cycle credit accounts may have to be considered separately. If the buyer (borrower) retains the initiative the lender may have to be permitted some tolerance in regard to disclosure of the effective rate applicable from day to day. Compliance with rate disclosure might be confined to declaration and imposition of a monthly and/or annual rate % on the current balance or average balance.

7. Disclosure of a rate % may be in addition to, not in substitution for, disclosure in dollars thereby providing for common language and measurement without disturbing possible borrower preferences.

Mr. URIE: Mr. Irwin, your brief has been prepared with such great detail, it leaves me with very few questions. I am sure some of the members of the committee may have a few. One or two questions have arisen out of previous submissions and out of suggestions made by you, particularly to budget and cycle credit accounts.

You have suggested, for example, on page 14 of our copy of the brief, that it might be possible for monthly rate disclosure to be made based on one of three alternatives, the current monthly balance, the mid-monthly balance, or the average balance.

The Retail Council, in its supplementary submission to us, has indicated that none of those three is really possible, nor do they actually reflect what the rate should be. For example, they say that the mid-month balance would be no different, in point of fact, from the one earlier. Do you feel that is true?

Mr. IRWIN: This is substantially true.

Mr. URIE: And the average balance would likewise be the same?

Mr. IRWIN: The only point there is that the whole approach to the cycle credit account must recognize that administratively it would be intolerable

to try to arrive at any formula that would be exact. Therefore, choose what you like. If you are going to be inexact, I would go along with the retail people in choosing that method, which is most convenient to them. As regards the averaging idea, it does have some advantage, in that people perhaps tend to pay, for example, towards the end of the month, towards the end of the billing date, rather than in the middle or the beginning; and by averaging you get a little closer to a true extension of credit balance, rather than taking the previous balance, or even the current balance, for that matter. You get a distortion and the average balance evens it out a bit. I recognize that it would not make a great deal of difference, and it might add to their administrative problem.

Mr. URIE: Do you feel that, in the case of a budget and revolving credit, the imposition of a maximum rate, rather than a maximum monthly rate, for cost of loan, would be more reasonable than attempting accuracy?

Mr. IRWIN: I think it would be unreasonable to require them to state on every account—

Co-Chairman Senator CROLL: On every purchase?

Mr. IRWIN: No, Mr. Chairman. It could not be on every purchase, because it would be impossible. On every account, the rate they charge on that account. If they went so far as to say that on all accounts they were going to charge, up to \$300, $1\frac{1}{2}$ per cent per month; and on accounts over that figure, $1\frac{1}{4}$ per cent, I think that would do it.

Mr. URIE: This is the only thing that could be done. If they did set out in the actual account the effective rate, it would be all *ex post facto*. Is that true?

Mr. IRWIN: They produce a schedule now, where they give a long schedule of dollar charges. Here is one here. They give you the charge on balances of \$245, \$255 and so on. You get the same store in another province, which simply says "We charge $1\frac{1}{2}$ per cent on all balances".

Mr. URIE: We had that evidence, too. The Hudson Bay Company were able precisely to say what the effective rate was per month on all dollar levels. In fact, they do it.

Mr. IRWIN: But not on any particular account.

Mr. URIE: No, no.

Mr. IRWIN: On any particular level.

Co-Chairman Senator CROLL: You recently had an opportunity to see how the Americans operate, when you were on that fact finding tour. How does New York deal with it, how does California deal with it?

Mr. URIE: Mr. Irwin might give a review of the various places he visited.

Mr. IRWIN: We visited a lot of places in which I am sure you would be interested, but which had nothing to do with our studies. The three places we visited which really came to grips with the problem were Los Angeles (California), Washington and New York.

In California, they have what is called the Unruh Act, of which you have heard. It was introduced by a Mr. Unruh in the California Legislature, to deal with retail instalment sales. That act required a great number of things. In this particular area, under the Unruh Act dealing with retail instalment sales, other than motor vehicles, the lender may not charge more than five-sixths of one per cent times the number of months in the contract, on balances up to \$1,000.

Co-Chairman Senator CROLL: Five-sixths of one per cent?

Mr. IRWIN: Times the number of months in the contract on balances up to \$1,000. This is equivalent to an add-on rate of 10 per cent.

In regard to balances over \$1,000, they may not charge more than two-thirds of 1 per cent times the number of months on a contract, and that is equivalent to an add-on rate of 8 per cent.

Mr. URIE: Is this act in force now?

Mr. IRWIN: Yes. Then they have the Rees Levering act, which deals with the same type of legislation coverage in regard to automobile sales, and there the maximum rate that may be charged is 1 per cent times the number of months in the contract, which is equivalent to an add-on of 12 per cent for a 12 month period.

Co-Chairman Senator CROLL: The number of months in the contract. So if it is 24 months it is 24 per cent?

Mr. IRWIN: That is correct; but remember you are covering two years.

Co-Chairman Senator CROLL: Yes, it is 12 per cent.

Mr. IRWIN: Of the effective rate; and on sales under \$1,000 the effective annual rate is 17.97 per cent. On the auto sales it is 21.46 per cent actuarial rate.

Now, the interesting thing there is that we had a meeting with representatives of the lenders after having met with the government representatives, and we also met the representatives of the lenders actually operating under these acts. The surprising thing was that I think without exception all of the lenders said they were very happy with this legislation, that they were willing to co-operate with the government and that they had found that the legislation had done a great deal to tidy up the industry.

Mr. MACDONALD: Were these all pretty big lenders?

Mr. IRWIN: Yes, of the order that we would meet here.

Co-Chairman Senator CROLL: I will give the names of a few. There is Mr. Kaiser, who is the credit consultant for a California retailers' association; Mr. Weidman, President of Seaboard Finance and then there are another two or three, whose names are not so significant. However, you know Seaboard Finance. The others are a few finance companies.

Co-Chairman Mr. GREENE: Their legislation has no disclosure?

Mr. IRWIN: No. I think that is the important point. The legislation says you may not charge more than that, but it does not require that you disclose what you are charging to the borrower. The whole enforcement of the act, therefore, is on a sort of a fraud basis—a complaints basis.

Mr. URIE: Has this had the effect of extending credit in the state of California?

Mr. IRWIN: They do not seem to think so.

Mr. MACDONALD: Did you put to them the proposition whether they would like to shift from a maximum basis to a disclosure basis?

Mr. IRWIN: Yes, and they just about threw up their hands in horror. They would not go for that at all.

Mr. SCOTT: What reasons did they give?

Mr. IRWIN: They said the public could not understand it and could not calculate it, and ran the gamut of the usual reasons. They came to one of the crucial reasons, which Mr. Greene has already referred to, that there you have the banks operating under one arrangement, and everybody else under another, even in California, and that under the Instalment Sales Contract, the lenders felt that where banks were quoting 4 per cent per annum, $4\frac{1}{2}$ per cent, and so on, it would in fact be unfair competition if they had the retail rate disclosed.

Just by observation, it is worthy of note that in California there is a sort of advertising competition on the part of the banks, which declare, "Get your

money here," and the banks quote different competitive rates of 4 per cent, 4½ per cent, and 4.98 per cent and 4.73 per cent and so on. You see these signs all over the place. And it is probably true that an 18 per cent rate would seem to be pretty staggering. Apparently they seem to have some of the same constitutional problems we have here. I do not understand them, not being a lawyer, but they said there were difficulties in bringing the law under one umbrella.

Mr. URIE: Do you know if the companies objected at the time of this legislation to the introduction of maximum rates?

Mr. IRWIN: Oh, yes. That was pointed out in the meetings with the government representatives. They heard all the arguments and they said there were very great pressures exerted on the part of the lending community to forestall any such legislation even at this time, and the original thinking, the proposals, again were for disclosure of a rate to the borrower, but apparently some kind of compromise was reached whereby the lending community was willing to go for the maximum limitation, but no disclosure.

Co-Chairman Senator CROLL: Then you went from there to New York, or Washington?

Mr. IRWIN: Yes, Senator Croll. I will make one other reference. In California they also have the Personal Property Law, which is equivalent to our Small Loans Act. Their rates are 2½ per cent on the first \$200, 2% on the next \$300 and ½ of 1% over \$500.

In New York, they have very similar legislation. They have a commercial code law in two sections, article 9, which deals with retail instalment sales, and article 10, dealing with auto sales. There again, they go for the maximum type of legislation.

Under the motor vehicles section, you may not charge for new cars more than \$7 per 100 per year. That is the way they express it. For other than new cars, \$10 per \$100 per year.

Under the instalment sales for goods and services, you may not charge more than \$10 per \$100 per year for balances, \$500 and less, and \$8 per 100 per year for amounts over that.

That is a slightly different approach to the add-on rates,—such as in California—and remember, I am speaking as an individual here—there is some virtue in this, only in the sense that it again was acceptable to the lending community down there, and it does go part way. They have a rather interesting way of dealing with consumer information. In other words, the acts say that you may not charge more than, for example, \$8 per \$100 per annum, but there is no disclosure. However, the government there has undertaken quite an extensive educational program, and they publish "A Consumer's Quick Credit Guide," and it tells you, in the case where a lender, for instance, says, "I am charging you \$8 per 100 per annum," that this means an annual effective rate of 14.8 per cent. Curiously enough I do not like that. I think they are using the constant ratio formula to arrive at an approximate rate, because the actuarial rate is 14.45 per cent.

However, at least they have got something to hang their hats on. This is widespread. They give this out in the schools and I understand that they have even got some of the lenders to volunteer to make this available to the customer at the time he signs his contract.

Mr. MACDONALD: I am sure banks distribute them as well.

Mr. IRWIN: As a matter of fact, they do. Apparently they give them out wholesale. But even some of the lenders themselves are interested in distributing this kind of thing.

They also issue this, "Know your rights when you buy on time." This is issued by the Superintendent of Banks under the authority of Governor Rockefeller. It summarizes very briefly and very intelligently what the acts say and how you find out your rights, and so on.

So, evidently, from what I gathered, they found there is such resistance to disclosure that they kind of attacked it in a roundabout manner, first by requiring the tables to be developed on this basis of \$8 per \$100 per annum. This is a little more exact, actually. It does not enable the lender as much leeway as this add-on type table. They have to have fairly scientifically prepared tables which work out at these rates.

Then, with the Government sponsoring a widespread educational program they tell us that the consuming public is pretty well informed of what \$8 per 100 per annum means in terms of effective rate, even though they are using a short-cut formula to arrive at the answer rather than actuarially. It seems to me to meet some of my criteria, such as a universal language of expression and a common method of computation.

Mr. URIE: Comparability is the important thing?

Mr. IRWIN: Yes, comparability is the important thing.

Mr. MACDONALD: This is a federal publication and not a California one?

Mr. IRWIN: I was not aware of that.

Mr. MACDONALD: Yes, the U.S. Department of Agriculture.

Mr. IRWIN: Yes, maybe that is true, but it is part of the educational program in New York. We did not get that in Washington.

Mr. MACDONALD: And this is a New York one?

Mr. IRWIN: Yes, the two came together.

Co-Chairman Mr. GREENE: The maximum rate approach solves the revolving credit problem?

Mr. IRWIN: Again, I am speaking personally. I do not feel the mere passing of legislation setting maximums really is the answer. It is disclosure you want. Speaking again privately and as a businessman who has served business for 25 years—and I am making a very personal remark here—I do not agree, in principle, with the setting of maximum rates. Government is exercising a judgment in this respect. Who is really to evaluate what the risk is? I do not know whether an actuarial rate of 18 per cent is a proper rate. I do not know. The business people in California seem to be willing to work under it.

Mr. URIE: You do feel that full financial disclosure is important, by the same token?

The WITNESS: I think disclosure is important, rather than the setting of the rate. In other words, let the department store charge 10 per cent per month, if they want to, but tell people they are doing it.

Mr. MACDONALD: I wonder if it would be possible for me to ask Mr. Irwin a couple of questions on the brief?

Co-Chairman Senator CROLL: Go ahead.

Mr. MACDONALD: At page 3 there is a reference to the exclusion of some of the elements of finance charges, for example, the legal fees. What I am really asking you is not so much a technical matter, but your view on the matter of charges. What would your view be, generally, as to permissible exclusions? For example, would you exclude legal fees?

Mr. IRWIN: No, I would not. I feel fairly strongly on this, purely from an administrative and mathematical point of view, that if you permit any exclusions you are going to have a can of worms. How are you going to describe in legislation what can be excluded? If you exclude legal fees, for example—and in

Ontario the mortgage problem is a big one—who is to set what they are? How can you prevent the costs of money disappearing into the legal fees? Also from a mathematical point of view, and bearing in mind that the important criterion is that you must have comparability, therefore you must include all charges, which is the cost to the borrower regardless. I assume there may be legally the possibility to distinguish certain charges. For example, in the Truth in Lending bill introduced by Senator Douglas, which of course has not yet gained passage, they do describe them as that you must include all charges incidental to the granting of credit. I gathered from talking to their economists down there, to Senator Douglas and Senator Bennett, who is an opponent of the bill but is on the committee, that they have very clearly in mind what they mean by that. You cannot just shift costs. But there are in certain states—and we ran into this in California and New York—certain statutory charges like \$2 a contract, or something which is not incidental to the granting of credit; it just has to be paid. They provided that would be excluded. So you could, I suppose, if you were very careful in your exclusions, but I must say my own feeling is that even these sort of mandatory charges should be included in the calculation. If the purpose of the legislation is to inform the borrower, then he does not give a hoot how the lender arrived at the amount that he is charging him.

MR. MACDONALD: To turn to page 4, you have been suggesting there what would be necessary in the legislation—and I agree with you here—would be a fairly precise definition of the formula and of the surrounding basis for calculation. To what extent have you either in your Ontario committee or personally formed the judgment that this might restrict innovation as to methods of financing? And is this really very much of a problem? Perhaps I could explain what I mean by “innovation”. We had the retail people appear here, each of whom had a different system of doing it. I do not know whether that was to juggle the rates around or not, but presumably there must have been some reason for it. Is there any policy reason why you think it would be advisable to restrict this by a specific formula?

MR. IRWIN: Let us leave the revolving credit problem out of the picture at the moment, because you cannot devise a formula on this. All you can do in that case is cause the lender to say, “On balances of this you charge that; on balances of this you charge that.” How they work it out is their problem. This is simple arithmetic. If their statement is, “We charge 1 per cent on the previous month’s balance,” the borrower has his account which starts out with the previous months’ balance, and if the balance was \$400, at 1 per cent, he knows it is a charge of \$4. But dealing with other types of lending I am satisfied in this respect that the legislation need not spell out in any complicated manner how you arrive at your rate. You should simply say, for example, in the case of a retail instalment payment contract, that your table of rates must be calculated to conform with the actuarial table of the present value of annuity of one payable in arrears. That is the end of it. Then every table produced has to conform with that, within a tolerance of one-eighth of 1 per cent per annum; or if you wanted to go to 1/16th this could be revised to 1/16th. This is your audit standard. Every table must conform with the tables, and no further description is required. Now I am not a lawyer and I do not know how a court would deal with this, but to my mind it is fundamental. I do not see how a court could twist this in any way. There is only one actuarial formula for the present value of an annuity payable in arrears. Nobody can get away from that. They can devise any method they like provided it shows that the final charge in relation to the principal borrowed must conform with that.

Co-Chairman Senator CROLL: There is a point which occurs to me. You will probably remember the recommendation made by the royal commission in which they said that it could be done. They had before them that sort of

table which was provided by a company whose name I will not mention. I envisaged this, that the Government has a table prepared by the IBM and it says it will be done in accordance with this formula, a copy of which would be sent on application being made. It seems too simple for me.

Co-Chairman Mr. GREENE: You say there is no mistake in the formula you mentioned. Is this a formula that is accepted by the National Association of Chartered Accountants, or is there some reference to this or to calculations not made by this formula?

Mr. IRWIN: I think it is more like this; that using a decimal system of mathematics we have come to a fundamental truth that one plus one is two. The actuarial formula is in the same category. There is one actuarial formula in world-wide application, and there can be no other. That is what we need to say.

Now there are, conceivably, different formulae used by different types of contracts. I would not restrict a mortgage or an institutional lender who happens to be working on another actuarial table which provides for compounding half-yearly. I visualize legislation as saying if you are lending under a conditional sales contract payable monthly then you must compel the table to conform with that. If you say you are a mortgage lender, then you may use a table compounding half-yearly, quarterly or any other way you want. You do not have to spell it out in language, but simply identify the actuarial formula which would apply in that case.

Mr. MACDONALD: This is a question that has bothered me and perhaps you can answer it—maybe not in your capacity as adviser to the Ontario committee. I wonder what you would think of a suggestion of a joint federal-provincial body resembling the United Kingdom Consumer Council which would have the responsibility of providing information on this and which could be responsible for investigation and if necessary enforcement activities in the event of malpractice or in the event of complaints.

Mr. IRWIN: Again speaking as an individual my impression of the whole problem, both practically and constitutionally, is that the most desirable approach to the whole problem is on a concurrent basis. In other words if you could gain some sort of complementary legislation at federal and provincial levels providing for a disciplinary and informative type of bureau both provincially and federally combined,—I think that is the best way to do it.

Co-Chairman Senator CROLL: That seems to be reversing the trend. At the present time everybody is considering opting out rather than opting in.

Mr. MACDONALD: That is co-operative federalism.

Mr. IRWIN: I would like to make this comment on this statement. I have talked in great detail and with some heat to lenders who are clients of mine and to others who are not about this whole problem. I shall not quote names, but I have yet to come up against a case where an actual lender really believes that there is any mathematical or administrative difficulty about the whole thing. It is actually terribly simple on the table basis. But the great fear in the minds of lenders—that is the 18 per cent lenders, let us say—is that if they had to disclose a rate of 18 per cent the public would be appalled, and then if the banks were permitted to continue to trade on the public impression that you can borrow from a bank at 6 per cent, then the lender at the 18 per cent is put in a most difficult competitive situation. There is no question in my mind about that. When the lenders say that the borrower would not understand the rate per cent, they do not mean that he would not comprehend what 18 per cent was, or that he would not understand what it meant. What he would not understand is why he would have to pay 18 per cent when the bank only charges 6 per cent. He would wonder why the necessity for the very much higher rate. Of course the costs of the 18 per cent lender are very

much higher; he starts out by borrowing from the bank at 6 per cent, and he has to get back that 6 per cent and then he has to add his costs of operation and he must take into account his greater risk. It is not too hard for him to justify a rate of 18 per cent. But this is what they really mean when they say the public would not understand it. They fear the public would understand too well what 18 per cent meant against 6 per cent, but they would not understand why it should be 18 per cent legitimately.

Co-Chairman Mr. GREENE: Suppose whatever legislation is envisaged makes it very clear that the banks have to distinguish in clear, simple terms to their customers which hat they have on when that customer is dealing with them—the banks are now in a dual position.

In your committee you have not seen any jurisdiction which had disclosure as the law or the *modus operandi*?

Mr. IRWIN: No, we did not.

Mr. SCOTT: Do you know of any?

Mr. IRWIN: There are, I understand, five states, but I am not prepared to name them. We have this information in Toronto. There are five states that have disclosure of the rate per cent.

Mr. URIE: Nebraska is one.

Mr. IRWIN: Yes, and I believe New Hampshire—I cannot name them off, but there are five that have actually gone to the disclosure of the rate. I think that Nebraska is about the most forward in this. Is it not the state that had the legal case about the upsetting of the time price doctrine?

Mr. URIE: That is right. It was pointed out by one witness we had before us that in the case of Nebraska the retail sales had fallen very markedly immediately following the introduction of the legislation; that credit buying had fallen off, and that the whole economy had gone down. Whether or not it has recovered since, I do not know. Have you any information on that?

Mr. IRWIN: I have no information, but I would comment, as I did to the Ontario committee, that I wish the whole inquiry, both in Ontario and other provinces, and here and in the United States, would get off this nonsense argument, about whether it can be done or not, because it can be done. There is no question about that. I do think there may be other areas of pertinent inquiry—for example, the economic effects of disclosure, which ought to be investigated in depth because nobody has ever seemed to have got beyond this rather specious level of argument into the real meat of the thing. I have no opinion because I have not investigated it. I have been devoting my time to this. I think there is a real area of investigation to be carried on as to what would be the economic effects, and what would be the shifts that would take place in the lending pattern. Perhaps you might well find adverse effects would ensue to the small retailer, and a shifting of business to the larger units, and that kind of thing. If that were to be a result of disclosure then I think it would be up to the legislators to decide whether it was in the total public interest. There are many areas like that, Mr. Urie, which I think should be investigated, and I think we should get away from this nonsense argument.

Mr. URIE: Did not the professor you had appearing before your committee from the University of Pennsylvania touch upon that?

Mr. IRWIN: Dr. Johnson?

Co-Chairman Senator CROLL: No, Professor Johnson is from Michigan State.

Mr. URIE: There was one opponent and one proponent of disclosure.

Mr. MACDONALD: Am I not right in saying that they were mathematicians rather than economists?

Mr. IRWIN: I do not know who the person is who fits your description, Mr. Urie. The two people we had of economic identification were brought to the committee at my suggestion because I wanted to get their evaluation. One of them was Dr. Johnson from Michigan, and as Mr. Macdonald points out his commentaries were devoted to this realm of the feasibility aspects of it. Under questioning it turned out that his entire brief in opposition was premised on the revolving credit. Of course, we said: "Fine, if that is all you are talking about we agree with you". In regard to other types of lending he admitted the same arguments did not hold true. I asked him if he had given any thought to these larger issues of the economic factors and intra-business effects, as I called them, and he said he had made no inquiry in this area at all.

The second economist we had before us was McGregor from the University of Toronto. He agreed right down the line that the type of thing presented here was feasible, but upon questioning in regard to the economic effects he seemed to feel that there would be very little. He felt there would be a temporary, perhaps, slackening of the volume of credit, but a quick recovery, and he thought that the shifting that might take place within the economy would be relatively minor.

Mr. URIE: And that this would not occur if any legislation of that nature were of universal application throughout this country, for example?

Mr. IRWIN: As far as declining credit is concerned?

Mr. URIE: Yes.

Mr. IRWIN: I think that is true.

Mr. URIE: Nobody can do more than hazard a guess, of course.

Mr. IRWIN: I admit there might be a shifting towards saving rather than spending, which could be a temporary deterrent on the economy as a whole, but it is not likely it would be a permanent one. I am giving my own opinion here. As far as the economic aspects related to shifting—yes, I think these would take place, even if there were universal disclosure on a common basis, because undoubtedly you could expect to find lenders who are charging, let us say, the 18 per cent level who literally would be discouraged from staying in the business, and there would be undoubtedly customers of these who would go somewhere else. I think that this is a real possibility.

Co-Chairman Senator CROLL: Mr. Irwin, from time to time the committee in the United States issues memoranda of their evidence in the same way that we do. I have been reading that. For some years they have been sending it to me. I noticed, as you have already indicated to us, that Bennett from Utah—the opposition—has a staff as well as Douglas, and each of them does what they can for their own side. Not once in the evidence do I recall a reference to the inimicable effect upon credit in any of the states that have disclosure at the present time. Do you recall anything of that sort?

Mr. IRWIN: No, I do not recall, Senator Croll, that any such reference was made. I feel, though, the answer to that is that it simply has not been looked into.

Co-Chairman Senator CROLL: In Bennett's group, the opposition were pretty formidable people, whereas on the other side the people who are propounding this are the consumers, who are not so formidable. And then you have the merchants, the retail trade and the automobile dealers and so on. They were looking for every conceivable argument on credit, yet I do not recall once that argument being used, and if it had been available, I do not think they would have missed it.

Mr. IRWIN: I believe you are right, but I do not believe anyone has given this serious study, even the lenders or the associations of lenders themselves. For example, we had the Chamber of Commerce appear before us and they

presented a very well put together brief. But the curious thing was that there was no mention of the economic side at all. I asked the gentlemen who were presenting it, they were well known people and responsible, had they given this any thought, and they said no, they had not. I have asked this question of practically every association that has appeared before us and nobody has given any objective study to the possible economic implications of disclosure. Yet, to me, it is a very important thing to evaluate, because we keep in this nonsense ground all the time and never seem to get out to the important issues, I would like to see it evaluated.

Co-Chairman Mr. GREENE: You have told us you visited two states in which there was legislation in this area on the maximum interest basis, and that you are aware there are five states in the United States that have disclosure laws. Are you aware of any detrimental effect in the economy, in any of those seven states?

Mr. IRWIN: I do not know of any.

Mr. SCOTT: How do they handle it in England?

Mr. IRWIN: There was the Molyneux report, which came out last year, and I think it has come into effect, parts of it, on January 1, 1965. On the interest problem, they retreated from it, and they do not ask for a declaration of the rate. As to the second problem, whether there has been any evaluation of economic effects, I am not aware of it. I do not think so. In the report itself, there does not seem to be any. It is curious that in all those investigations, Canada, the United States, and England, no one has yet tried to evaluate this.

Co-Chairman Senator CROLL: Since you had covered California, New York and Washington, my co-chairman and a group might well cover the other states . . .

Co-Chairman Mr. GREENE: There is one point which concerns me, and no one seems to be worried about it. It seems to me that disclosure legislation is geared particularly to the unsophisticated, the ill informed, the ill equipped, to deal in the economic jungle. We would not need any legislation if everyone were well informed. I am a little disturbed, in that it does not seem to trouble you or others who are in favour of some type of legislation, that there may be room for disclosing interest rates on a monthly basis, regarding the open end contracts, or these revolving cycle contracts, while others will be disclosed on an annual rate of interest. It seems to me that is going to open a very wide door of confusion, if in one case it is stated on a monthly basis, whereas in the others the laws are annual. It seems to me we should stick strictly, if at all possible, to the annual basis.

Mr. IRWIN: I would agree entirely. Some members of our committee look upon me as somewhat academic. The actual fact is quite the reverse. I have been a chartered accountant in public practice for 25 years, and I am very much concerned for my clients and the effect on business, as well as the information of consumers. I would say it would be better if we had everybody on an annual rate basis, or a monthly rate basis—that they would be all the same.

However, I guess the practical side of me comes out, and I have this comment in regard to various pieces of legislation I have seen being imposed on business—that unless you get acceptance to some degree by the community that is going to have to work with it, they can foul it up pretty well, too. I come to this view: go as far as you possibly can, and the rest will follow in due course. There might be a little confusion if the department stores charge a monthly rate and the rest of the lenders have an annual rate. There could be some information in a pamphlet available to individual consumers, telling them all they would have to do is multiply by 12 to get from the monthly rate to the annual rate. I know that one reason is the competition of the bank rate

and the department stores would be willing to go as far as stating the monthly rate, but they object strenuously to multiplying it by 12. In my opinion, the reason is that this puts them up to 18 per cent, and the banks are charging 6—at least, that is what the public thinks—and therefore the merchants are going to be placed in an invidious position. However, the practical side of me says: I would go some of the steps and we could get some order and if we were going to have it on a monthly basis that would do, for the stores, and we could get the rest on an annual basis and that would be okay. Then you would have covered a great segment of it on an annual basis, and I think the others would follow automatically.

Mr. URIE: Would it be such a pity if revolving credit disappeared from the economic scene, if a regulation were put in requiring disclosure on an annual basis?

Mr. IRWIN: Stating my personal view now, I do not think any legislation should re-organize the business community, you should not drive anyone out of what he is doing.

Mr. URIE: Unless it is for the good of the community.

Mr. IRWIN: Unless you find that there is something really reprehensible, against the public good, then the Government must act. I cannot see anything really harmful in a revolving credit account. Personally, after being introduced to this whole problem, and discovering that my wife was paying 18 per cent—

Co-Chairman Senator CROLL: So is mine.

Mr. IRWIN: And I pointed it out to her—

Mr. URIE: You dropped that out.

Mr. IRWIN: She stopped using the credit so intensively.

Co-Chairman Senator CROLL: How old is revolving credit?

Mr. IRWIN: I cannot pinpoint it exactly, but in Canada it started about 10 years ago.

Co-Chairman Senator CROLL: That is what I thought, 10 years ago.

Mr. IRWIN: And it has gained momentum. There are many features of it that have nothing to do with the interest rate. It seems to have a psychological effect on buying.

Co-Chairman Senator CROLL: The power that enables you to walk in and charge, every day of the week.

Mr. IRWIN: It creates such a freedom.

Co-Chairman Senator CROLL: Until you have to pay.

Mr. URIE: I heard it once described as revolting credit.

Co-Chairman Mr. GREENE: Are there any other questions? If there is nothing further, I shall adjourn the meeting. Thank you very much, Mr. Irwin, for your appearance here.

The committee adjourned.

APPENDIX "Q"

SPECIAL JOINT COMMITTEE
OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

(CORRECTED) MEMORANDUM

In Respect to
MATHEMATICAL AND ADMINISTRATIVE ASPECTS OF
CALCULATING THE COSTS OF BORROWING
AS A PERCENTAGE RATE

Submitted by
DOUGLAS D. IRWIN

of Winspear, Higgins, Stevenson and Doane
Chartered Accountants.

Toronto, September 14, 1964.

SELECT COMMITTEE ON CONSUMER CREDIT

The subject matter, herein, is concerned with mathematical and administrative problems involved in the determination and disclosure of the cost of borrowing expressed as a rate percent of the principal sum.

The committee has received representations to the effect that:

- (a) in certain cases it is difficult if not impossible to determine, accurately, the cost of borrowed funds in terms of a rate percent per annum.
- (b) that if such a disclosure were required, serious administrative difficulties would be created.
- (c) that such disclosure would not be comprehended readily by the borrower.

Certain other arguments in opposition to such disclosure have also been advanced:

- (a) that, in certain cases, the charges made are not interest but represent service costs and other expenses.
- (b) that disclosure would result in a transfer of cost from many costs to the price of the article.

This memorandum does not deal with considerations of public policy but is confined to an assessment of these representations as they may bear upon mathematical and administrative feasibility.

Definitions and Assumptions

It is necessary to define certain meanings and comment on certain assumptions which commonly occur:

Interest vs. cost of money

The cost of borrowing money (or credit) includes values in respect to:

1. Pure interest
2. Risk
3. Service costs
4. Direct outlays (e.g. legal fees)

Pure interest is an economic concept of the value attached to the use of money, per se. It is a rent paid by the borrower to compensate the lender because he must defer the satisfaction of wants which immediate use of the money would otherwise bring.

Pure interest rarely exists. Perhaps the closest approach to pure interest is found in the case of a government Treasury Bill in regard to which service cost, direct costs and risks are, practically, non-existent.

It is argued that the costs of borrowing money should not be called interest because of the presence of the other factors in cost. However, the term interest is in common use (e.g. commercial bank loans and by insurance companies in respect to mortgages) even though factors other than pure interest are present. On the other hand lenders on conditional sales contracts abjure use of the term interest on the grounds that their charges are for service.

These different view-points appear to be matters of degree rather than of substance insofar as, except where pure interest occurs, every charge for the use of money includes, in some measure, at least three of the elements mentioned above.

The "non-interest" contention may, perhaps, be resolved by avoiding any reference to interest and referring only to the "cost of borrowing" or "the cost of money".

If this premise is accepted we may escape the philosophical argument and concentrate on the problems of expressing the "cost of money" as a percent per annum (or per period) related to the amount of the principal advanced or to the balance of principle unpaid from time to time.

In this memorandum, for purposes of illustration and calculation, all of the four elements of cost are deemed to be included.

Methods of calculation

There are several methods used to calculate cost of money as a rate percent. Those in more or less general use are:

1. Constant ratio
—a short-cut formula which gives an approximation of the rate but which becomes more inaccurate as the terms of the contract are longer and the ratio of finance charges to principal becomes higher.
2. Direct ratio
—a short-cut formula giving an approximation of the rate more exact than the constant ratio formula but still subject to margins of error which could lead to dispute.
3. Add-on and yield formulae
—a % added on to the principal. These forms are used by those who expect a certain % yield return which are converted to a simple arithmetic add-on by use of tables. The tendency is to round-out the add-on % to even dollars and to apply the add-on dollars to ranges of loans within say \$10 intervals. The actual rate charged may vary significantly between that applicable to the loan at the lower end of the range and that applicable at the higher end of the range.
4. Many variations of the foregoing methods are subject to the same criticisms. Many lenders develop their own formulae.

5. Simple interest calculations on a daily, yearly or other periodic basis with or without compounding.
6. Actuarial method

That is a general term describing methods used by actuaries to determine rates % employing higher mathematical formulae. For practical use, standard tables, derived from these actuarial formulae have been developed and are readily available. In addition actuarial tables, to suit special purposes, may be obtained from several publishing houses and actuarial organizations. In fact such special tables are in general use by lenders.

Accuracy of methods

It has been submitted that if you ask six different people to calculate the true rate of interest in regard to the same loan contract you may get six widely different answers. The inference is made that this demonstrates the futility and inaccuracy of making the calculations at all.

This criticism is a half-truth.

Because of the number of different methods it follows that if each of the six calculators use a different method different results will ensue. Furthermore some of the calculators may make different assumptions as to:

- (a) exclusion of some of the elements of the finance charge (e.g. legal fees)
- (b) compounding of interest

In regard to (a) it is obvious that for purposes of comparison, none of the factors may be left out of calculation.

In regard to (b) compounding should not be assumed unless it does, in fact, take place.

Certain tables are available which are based upon compounding at periodic intervals i.e. daily, weekly, monthly, quarterly, half-yearly, yearly. These tables are, in turn, sometimes applied incorrectly in respect to contracts which in reality do not include a compounding feature. When this is so the rate derived from the tables will not reflect the true rate applicable to the contract.

Compounding occurs only if interest is charged but is not paid (i.e. interest is carried forward). In most instalment payment contracts, for example, interest is paid as it accrues and no compounding actually takes place. It is a question of fact in every case whether or not compounding occurs. Lack of precision in regard to compounding may be corrected by exact stipulation in the contract.

In presenting a problem for solution to six different calculators the following should apply:

- (a) the terms of reference must be exact and identical for each calculator.
- (b) each calculator must use the same method.

If these conditions are met the six calculators will produce six identical answers (E. & O.E.) to the same problem. Similarly these conditions being applied to six different problems the six results will be mathematically comparable.

It follows from the above that if all lenders were required to use the same method of calculating the costs of borrowing as a rate percent a borrower would be enabled to make a valid comparison between rates offered by lender A or lender B for an otherwise identical loan.

Legislation, if enacted, covering disclosure of costs of money as a rate % would need, therefore, to establish a common terminology and a common basis for calculation, of universal application.

Selection of method

In respect to mathematical methods loan arrangements may be classified into general types:

1. Contracts requiring specified payments of principal and specified rates or amounts of interest (cost) each paid separately e.g. commercial bank loan, non-amortized mortgages. These are essentially simple or compound interest problems resolvable by arithmetic.
2. Contracts requiring blended payments of principal and interest e.g. conditional sales contracts, amortized mortgages. These are resolvable by use of actuarial methods.
3. Contracts which are combinations of 1 and 2.

As will be explained the revolving credit account is not readily reducible to simple mathematical formulae.

In respect to all other loan contracts a rate % may be determined by methods 1 or 2, or a combination of both.

Review of the various methods available leads to the conclusion that use of actuarial methods only provides means of calculation having universal validity in cases where simple interest calculations are impracticable.

An important point to observe is that while it may be a difficult mathematical exercise to deduce the true rate % from a stated case wherein the amount of finance charges is given but in which the rate is unknown to the calculator (borrower) it is a relatively simple exercise for the lender to select and state the rate to begin with and to derive, therefrom, the total finance charges exigible.

Forward calculation from stated rate to total charges is infinitely less difficult than the mathematical difficulty of deriving an unknown rate from the stated charges.

The actuarial method

We need not belabour the mathematics of simple interest calculations but the actuarial method requires some explanation.

Instalment contracts with blended payments of principal and interest (e.g. an amortized mortgage, a conditional sales contract) are mathematically equivalent to annuities in one form or another.

The principal sum is in effect the present value of an annuity to be received. Actuarial tables express this as the present value of an annuity of one with interest payable in arrears. If the rate per period is unknown but all other factors in a problem are known the rate may be determined from these tables.

Standard tables of this type, however, are produced on the basis of intervals in rate of $\frac{1}{8}$ of 1% per period in the lower ranges, intervals of $\frac{1}{4}$ of 1% per period in the middle ranges and $\frac{1}{2}$ of 1% per period in the upper ranges.

Where compounding does not occur a monthly rate of 1% may be expressed as a nominal annual rate of 12% chargeable monthly. The next higher rate of $1\frac{1}{4}\%$ per month becomes 15% p.a.—a difference of 3% p.a. Obviously the actual rate of a given problem might lie somewhere between 12% p.a. and 15% p.a. and use of either rate would be substantially inaccurate.

In the interest of greater accuracy it is necessary to create actuarial tables with very much narrower rate intervals.

The writer has, therefore, evolved and caused to be produced actuarial tables for the "present value of an annuity of \$1 payable in arrears" at rate intervals of $\frac{1}{100}$ of 1% per period (e.g. month). These tables result in annual rates moving at intervals of $\frac{1}{8}$ of 1% per annum. The margin of error

for the annual rate cannot therefore exceed $\frac{1}{8}$ of 1% p.a. The range covered is from .005% per period ($\frac{1}{2}$ of 1%) to .0257% per period ($2\frac{1}{2}\%$ +) and from 1 to 120 periods.

These tables have been produced experimentally. They could be further refined to produce annual rates with margins of error of $1/16$, $1/32$, $1/64$ etc. of 1% per annum.

Disclosure with an accuracy of within $\frac{1}{8}$ of 1% p.a. might be considered sufficiently valid for purposes of comparison herein.

Use of the tables

In the case of blended payment contracts (or aspects of contracts) the rate may be found, using the tables as follows:

A Determine:

- (1) The principal advanced
- (2) The aggregate payable
- (3) The number of payments

B Multiply the principal by the number of payments ((1) x (3) above) and divide by the aggregate ((2) above)

C A factor evolves from step B which factor may be found in the tables in a column of figures giving the monthly and the annual rate % applicable to the number of payments in the contract.

The writer does not suggest that a clerk making out a contract form should be required to go through all of these steps. Administrative burden should be kept to a minimum.

Business experience, however, indicates that the clerk now performs step A with tables now in use. The clerk could also be provided with actuarially based tables which include steps B and C.

The clerk would perform essentially the same task but his new tables would not only provide the information presently given to the borrower as to principal, aggregate, finance charges and payment per month, all in dollars, but the rate % per annum as well.

Specific applications

The classifications and sub-classifications of loan contracts may now be analyzed and methods suggested for determining rates applicable to each:

1. Small loans act

Rates permissible by law are:

2% per month of the first \$300.00

1% per month on the next \$700.00

$\frac{1}{2}\%$ per month on the next \$500.00

Determination of the over-all effective rate for any given loan, by deduction, is a relatively difficult assignment.

However, in consultation with one of the lenders under this act it was found that their present tables were readily adaptable to the declaration of a yearly rate for all categories of loan offered by them merely by pre-calculating the rates and adding them to their present schedules.

Very accurate and comprehensive tables are used by this lender which comply exactly with the Small Loans Act for any amount of principal outstanding for any number of periods and provide ready calculations in regard to late, prior or skipped payments.

The writer has extracted part of this lender's published schedule of charges and has added a column to show the effective annual rate % calculated actuarially. The clerk in preparing the contract would merely read off and disclose the rate along with the information already provided by the tables. (see Appendix I).

2. Conditional sales contracts

Several retailers were requested to furnish information as to their present methods of determining finance charges and examples of actual loan contracts in their files.

In all cases these contracts were found to be reducible to annuity problems and rates could be determined from the present value tables. Tables are presently in use based on the add-on principle. Effective rates % are not given. Upon analysis it has been found that the effective rates vary significantly in respect to dollar amounts of loans bearing the same add-on.

Revised tables could be prepared showing effective rates and within narrower ranges of loan balances, based on actuarial tables. The procedures to be employed to determine an effective rate % are demonstrated in respect to an actual loan contract as follows:

Amount borrowed	\$256.77
Finance charges added	45.00

Aggregate to be paid	<u>\$301.77</u>
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Payments required are:

17 @ \$17.00	\$289.00
1 @ \$12.77	12.77
<hr/>	
18 @ avg. of \$16.76 (5)	<u>\$301.77</u>

Procedure

1. \$256.77 multiplied by 18 = \$4,621.86
2. Divide by \$301.77 = Factor of .15315836
3. From tables the factor .15315836 is very close to a rate of 21.12% p.a.

The same factor is also produced by dividing the principal of \$256.77 by the average of \$16.765. The rate would be the same 21.12% p.a.

Note The exact rate in the above problem is slightly higher than 21.12% because the last payment of \$12.77 is considerably below the level of the other payments. (In fact the exact rate is 21.36% p.a.)

This inaccuracy may be eliminated if regulations were to require that no payment might differ from the average of all payments by more than say 10%.

This rule applied to this problem would result in a comparative rate of 21.12% which would be within $\frac{1}{8}$ of 1% of the true rate.

3. Mortgage loan

—Fully amortized by maturity

—All charges including legal fees to be included in calculation

(Note where there are no charges other than interest the stated rate is the effective rate)

Example:

Principal	\$10,000.00	
<i>Deduct</i>		
Legal fees	\$100.00	
Other	35.00	135.00
		<hr/>
Net to borrower	\$ 9,865.00	
		<hr/>

Stated rate 6%

Term—10 years

Blended payments of \$111.02 per month for 120 months

Aggregate of payments \$13,322.46

Solution

Determine actuarial factor

\$9,865.00 is present value of \$111.02 per month for 120 months.

Factor is

$$\frac{\$9,865.00 \times 120}{\$13,322.46} = 88.8574632$$

\$13,322.46

From tables the nearest rate is 6.36%

The exact rate is 6.30% but 6.36% is more accurate than either of the nearest other table rates of 6.24% p.a. or 6.48% p.a.

4. Mortgage loan

—Blended payments but with a balloon payment at maturity.
Part of the principal is amortized over a term the balance being due at maturity.

(a) Where there are no charges of any kind the stated rate is the effective rate.

(b) Where there are other charges we have two problems

—An effective rate to maturity on the amortized portion

—The stated rate on the balloon payment

Example

6% 10 year mortgage of \$10,000.00	
\$5,000.00 remaining at maturity	
Principal payable over 10 years	\$5,000.00
<i>Deduct</i>	
Costs	120.00
	<hr/>
Net received	\$4,880.00
	<hr/>

The loan is payable as to \$5,000.00 principal in blended payments of \$55.51 p.a. plus interest on the balloon.

Aggregate of blended payments if \$6,661.23

\$4,880.00 is p.v. of \$55.51 for 120 months

Solution

$$\text{Factor is } \$4,880.00 \times 120 = 87.9116919$$

\$6,661.23

From tables the nearest rate is 6.48% p.a. (actually 6.54%)
in respect to the amortized portion of the loan. Stated rate of
6% applies on the balloon portion.

5. Mortgage loan

Fully amortized with bonus and charges

Example

6% mortgage payable over 10 years

Principal \$10,000.00

Deduct

Bonus \$2,000.00

Charges 1,000.00

3,000.00Net cash received \$ 7,000.00

Payable over 120 months @ \$111.02 per month

Aggregate payable is \$13,322.46

Solution

\$7,000.00 is present value of 120 payments at \$111.02 per month

Factor is $\$7,000.00 \times 120 = 63.05141843$ \$13,322.46

From tables the nearest rate is 14.52% p.a. (actual rate 14.55% p.a.)

6. Mortgage loans

Partially amortized loan with bonus and charges

Example

6% mortgage of \$10,000.00 payable as to \$5,000.00 by amortization over 10 years with \$5,000.00 balloon at maturity (10 years hence).

Statement of loan

	Amortized	Balloon	Total
Principal	\$5,000.00	\$5,000.00	\$10,000.00

Deduct

Bonus \$1,500.00

Charges 300.00 1,800.00 1,800.00Net received \$3,200.00 \$5,000.00 \$ 8,200.00

Payable as to \$5,000.00 amortized at \$55.51 per month for 120 months plus interest on the balloon.

Aggregate payable is \$6,661.23 re the amortized portion.

Rate on amortized portion is

Factor is $\$3,200.00 \times 120 = 57.64701$ \$6,661.23

Nearest rate from table is 16.92%

(actual 16.94%)

Rate on balloon is the stated rate of 6%

7. Non-amortized mortgages

Where principal is paid separately and interest is calculated and paid separately.

The rate of interest charged is known to the lender otherwise the finance charge is purely arbitrary and a rate must be derived.

Representative types are:

- (a) Non-amortized mortgage with no bonus, no charges and a stated rate. There is no problem in this case as the stated rate will be applied to the unpaid balance from time to time and will, in fact, be the effective rate.
- (b) Non-amortized mortgages with bonus and charges

Example

Loan of \$12,000.00 payable as to principal over 10 years at \$100.00 per month plus interest at 6% charged and paid as accrued and subject to bonus and other charges.

Statement

Principal	\$ 12,000.00
Less	
Bonus	\$2,000.00
Charges	1,000.00
	<hr/>
	3,000.00
	<hr/>
Net received	\$ 9,000.00
	<hr/>

By factoring the account at .05% per month we determine that total interest charged on \$12,000.00 for 10 years is \$3,630.00. Total costs of borrowing \$9,000.00 are \$6,630.00 (\$3,000.00 + \$3,630.00). Total payments amount to \$15,630.00. By use of algebra we determine that:

\$9,000.00 is the present value of the sum of all the payments with interest at .0113% per month or a nominal annual rate of 13.56% p.a. chargeable monthly.

8. Skipped payment contracts

These problems are of two types

- payments defaulted by borrower
- deferred payments written into the contract

Defaulted payments pose no significant problem. Once the effective rate is known (and in most cases it is known to the lender and if not known it may be derived) that rate may be applied to the principal included in the defaulted payment for the number of days of default and thus determine the additional charge in dollars.

Deferred payments written into the contract present no problem if the rate is known to the lender. The additional interest charges in respect to the deferred payment may be calculated as in the foregoing paragraph. If the rate is not known it must first be derived.

If we are required to derive a rate from a stated case the mathematical problems are more difficult.

Example

Conditional Sales Contract

Automobile sold to a teacher

Amount to be financed\$2,400.00

Finance charges 460.00

Aggregate\$2,860.00

Payable \$100.00 per month from February 1962 to September 1964 both inclusive except July, August, September 1962. There are 28 payments of \$100.00 and 1 payment of \$60.00. Average payment is \$98.62 per month.

Procedure

1. Factor the account in regard to skipped payments— 3 payments of \$100.00 each, each deferred 24 months is equivalent to \$7,200.00 for 1 month.
2. The interest charged on \$7,200.00=X
3. $\$2,400.00 = \text{p.v. of } (\$98.62 - X) \text{ for 29 mos. at } i\%$

—
29
4. We may solve by algebra or by inspection
5. Using inspection

—Assume a rate of 1% per month

Interest on \$7,200.00 is \$72.00 for one month at 1%

Reduce aggregate and charges by \$72.00

Revise problem:

Principal	\$2,400.00
Charges	388.00
	<hr/>
Aggregate	<u>\$2,788.00</u>

Factor is $\$2,400.00 \times 29 = 24.96413199$

\$2,788.

The nearest table rate here is 1.03% per month or 12.36% p.a. In actual fact the rate used was probably 12% p.a. with the charges rounded off to the nearest \$10.00.

(Note the foregoing is a simplified version of rather more complex exact procedures used)

Example

A truck sold to a farmer

Principal to be paid\$1,200.00

Finance charges 138.00

Aggregate\$1,338.00

Payments on 13th of each month

September, October,

November 1962\$ 200.00 each

April, May 1963\$ 100.00 each

September, October 1963\$ 150.00 each

November 1963\$ 238.00 balance

All other months skipped.

Procedure

This is a problem in factoring. The principal outstanding from month to month is the equivalent of \$8,400.00 outstanding for one month. $\$138.00 = \$8,400.00$ at $i\%$ for 1 month

=1.6428% per month or

=19.713% p.a.

(Note the foregoing is also a simplified version of more complex procedures used).

A common criticism of rate disclosure is that the salesman or clerk would find it extremely difficult to cope with the problem of disclosure and additional charges on interrupted contracts. The foregoing illustrations are of this type and show that a rate is determinable. The office of the lender should and does pre-determine the rate of charge and furnishes the salesman or clerk with tables use of which plus elementary arithmetic provides the extra dollar charges on skipped payments.

The problem of the salesman or the clerk is very much over-emphasized. In practise additional charges on defaulted payments are ignored in most cases. The lender relies on his title rights and collection procedures and accepts the very slight loss of interest rather than make marginal calculations. In cases where deferred payments are written into the contract the additional charges are pre-calculated by table so that the salesman or clerk is not normally required to make individual calculations on the spot.

9. Cycle credit accounts

Budget accounts

The budget account is one wherein a purchaser undertakes (at the beginning) to pay off a specific balance over a stated number of months including finance charges.

The rate may be determined in the same manner as applies to a conditional sales contract. However the buyer retains the initiative (with the concurrence of the lender) to alter the contract by:

- (a) buying additional items
- (b) paying more or less than agreed

Whenever the borrower thus alters the terms of the contract a new formula develops.

Insofar as this initiative is exercised frequently (perhaps monthly) it might be considered an onerous task to impose upon the lender a recalculation of the rate each time the terms of contract change.

Some modification of rate disclosure may have to be considered. One suggestion is a % charge based on current month's balance, mid-month balance or average balance.

Revolving credit accounts

These are arrangements whereby the buyer is permitted to carry balances up to a stated maximum and is required to make a stated monthly payment.

The buyer retains the initiative to:

- charge any amount any time
- pay any amount any time

The lender makes a monthly charge based upon the previous monthly balance. A period of grace is allowed in respect to payments received within 3 or 4 days after the previous billing date. Otherwise no recognition is given in respect to the varying amounts of credit actually extended from one billing date to the next. Action by the lender to correct or compensate for variations from the original terms are post facto.

It has been observed that finance charges expressed as a rate % can be very high.

Example

Previous balance April 15	\$431.75
Charge at next billing date May 15 ..	\$ 4.95
Payment made April 20	\$331.75

Monthly payment required was \$22.00

In this case the charge of \$4.95 would still be made even though the payment of \$331.75 reduced the debit balance to only \$100.00 for 25 days of the billing month (April 20-May 15). The rate % charged on the \$100.00 for 25 days is exceedingly high. The opposite may also hold true

Example

Balance on March 15	Nil
Purchase on March 16	\$431.75
Charge April 15 (based on nil balance March 15)	Nil
Payment April 14	\$431.75
Charge on May 15 (based on nil balance on April 15)	Nil

In this case \$431.75 credit has been extended to the buyer for 29 days at no charge at all.

In such circumstances it is obviously unreasonable to expect the lender to determine the effective rate % from day to day.

There is no easy practicable method of resolving this problem by tables or mathematical formulae.

Alternative solutions may be suggested for compliance (at least partially) with disclosure requirements in terms of a rate %.

These are:

1. Require statement of a monthly rate % (and/or an annual rate %) along with or in substitution for dollar monthly charges now given.
2. Require one monthly or annual rate in place of a scale of charges and rates.
3. Extend period of grace (for recognition of payments between billing dates) to 15 days after previous billing date. (This would substantially reduce variations of actual rate from the stated rate).

GENERAL OBSERVATIONS

Public reaction

It has been submitted to the Committee by some lenders that:

- (a) the public wishes finance charges to be expressed in dollars.
- (b) the public would not comprehend disclosure in terms of a rate %.

These opinions appear to be subject to more conclusive verification perhaps by sampling of consumer reaction on a substantial scale.

Certain observations may also be made. In regard to:

- (a) disclosure of a rate % need not be a substitute for cost stated in dollars but in addition thereto. If the public does, in fact, prefer the cost in dollars it is in no way hampered by also being given the rate %.

- (b) the cost of borrowing is still being taught in schools in terms of a rate %. Many types of loans are still being quoted at a rate % e.g. conventional mortgage loans, commercial bank loans. The average householder is likely to have been exposed to quotation of a rate % in some instances. He also may be expected to have borrowed on a conditional sales contract in regard to which only dollar costs have been stated. If the borrower has understood the meaning of rates % as quoted by lenders of mortgages he might also be expected to comprehend the meaning of rates % quoted by lenders on conditional sales contracts. It would seem that common terms of expression in regard to both types of lending contracts would tend to reduce rather than to increase confusion. If expressed in the same terms comparability of various sources of funds becomes possible.

Administrative aspects

Imposition of requirements for disclosure of money costs as a rate % might impose new administrative problems upon business and the impact of such a burden should, no doubt, be minimized.

It has been found that the determination of finance charges is now performed by clerks furnished with readily-interpreted tables. It is submitted that the determination of rates % may also be revealed by use of tables and this being so administrative problems would not be significantly enlarged.

It has also been found that, in almost all cases, existing tables are based on a rate known to the lender. It would appear that disclosure of this rate would not present a major difficulty.

Transfer of money costs

Disclosure of money costs as a rate % may result in a transfer of some part of these costs to the price of the article. Lenders on conditional sales contracts might consider it be competitively beneficial to reduce finance rates and recover any loss resulting by an increase in prices.

This type of adjustment would only be available to retailers who are also lenders and would not be available to lenders of money only. If disclosure of rates were generally deemed to be advisable this method of apparent escape in a limited sector should not invalidate the desirability of such disclosure in respect to all other lending forms.

In the retail field one may assume that a double competition of finance rates and prices would ensue but such competition would eventually result in equilibrium. The buyer would be required to make comparisons both as to rate and price as between vendors but at least such comparisons would be valid. This would be more comprehensible than at present when apparent low prices may be offset by finance charges which are not readily measurable for competitive buying.

SUMMARY

1. It is mathematically possible to determine a rate % on all loan situations by use of:

- actuarial methods
- arithmetic methods

2. Practically, it would be an intolerable administrative burden to use the above methods from first principles to determine rates on individual contracts but rates may be readily determined for an individual contract by development of tables of universal application to all contracts of a specific lending classification (with the exception of cycle credit accounts which are subject to special circumstances).

3. Disclosure requirements should be of universal application and the basic methods of calculating rates should be determined for each classification of loan contract.

4. Use of tables would not appear to add a significant administrative burden insofar as tables are presently used, extensively, to determine finance charges.

However, practical considerations suggest that the tables should permit a measure of tolerance when applied to a particular contract. A degree of accuracy of $\frac{1}{8}$ of 1% p.a. has been suggested but this could be further refined.

5. A common language of expression and common criteria of measurement should be sought so that rates will be comparable. Pursuant thereto it would appear necessary that all elements of the cost of borrowing in all contracts must be included in the calculations.

In the case of blended payment contracts all payments should be nearly equal (say within a variation of 10% from the average).

6. Cycle credit accounts may have to be considered separately. If the buyer (borrower) retains the initiative the lender may have to be permitted some tolerance in regard to disclosure of the effective rate applicable from day to day. Compliance with rate disclosure might be confined to declaration and imposition of a monthly and/or annual rate % on the current balance or average balance.

7. Disclosure of a rate % may be in addition to, not in substitution for, disclosure in dollars thereby providing for common language and measurement without disturbing possible borrower preferences.

Douglas D. Irwin,
Financial Consultant,
Ontario Select Committee on Consumer Credit.

Appendix I

NIAGARA FINANCE COMPANY LIMITED

SMALL LOAN EVEN DOLLAR REPAYMENT CHART

DO NOT USE OTHER THAN AMOUNTS AND TERMS SHOWN ON THIS CHART FOR SMALL LOANS

	Present information			Additional information			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	12 Months			Interest Rate %		Interest Rate %	
	Monthly Payment	Cash Adv.	Ins. Prem.	Per month (excluding insurance)	Per Annum	Per Month (including insurance)	Per Annum
300.00	6	63.45	.29	2.00	24.0000	2.08	24.96
	8	84.60	.38	2.00	24.0000	2.08	24.96
	10	105.75	.48	2.00	24.0000	2.08	24.96
	12	126.90	.57	2.00	24.0000	2.08	24.96
	14	148.05	.67	2.00	24.0000	2.08	24.96
	16	169.21	.76	2.00	24.0000	2.08	24.96
	18	190.36	.86	2.00	24.0000	2.08	24.96
	20	211.51	.95	2.00	24.0000	2.08	24.96
	22	232.66	1.05	2.00	24.0000	2.08	24.96
	24	253.81	1.14	2.00	24.0000	2.08	24.96
	26	274.96	1.24	2.00	24.0000	2.08	24.96
	28	296.11	1.33	2.00	24.0000	2.08	24.96
	30	317.43	1.43	1.99	23.88	2.06	24.72
	32	338.92	1.53	1.98	23.76	2.05	24.60
	34	360.52	1.62	1.96	23.52	2.03	24.36
	36	382.25	1.72	1.94	23.28	2.00	24.00
	38	404.08	1.82	1.91	22.92	1.99	23.88
	40	425.96	1.92	1.89	22.68	1.96	23.52
	42	447.91	2.02	1.86	22.32	1.94	23.28
	1,000.00	44	469.94	2.11	1.84	22.08	1.91
46		491.96	2.21	1.82	21.84	1.89	22.68
48		514.08	2.31	1.79	21.48	1.87	22.44
50		536.23	2.41	1.77	21.24	1.85	22.16
55		591.66	2.66	1.72	20.64	1.83	21.96
60		647.29	2.91	1.68	20.16	1.75	21.00
65		702.97	3.16	1.64	19.68	1.71	20.52
70		758.81	3.41	1.60	19.20	1.71	20.52
75		814.65	3.67	1.57	18.84	1.64	19.68
76		825.82	3.72	1.56	18.72	1.63	19.56
80		870.53	3.92	1.54	18.48	1.61	19.32
85		926.55	4.17	1.51	18.12	1.58	18.96
90		982.56	4.42	1.49	17.88	1.56	18.72
92		1,004.99	4.52	1.48	17.76	1.56	18.72
93		1,016.25	4.57	1.47	17.64	1.55	18.60
94		1,027.51	4.62	1.47	17.64	1.54	18.48
95		1,038.77	4.67	1.46	17.52	1.53	18.36
96		1,050.02	4.73	1.46	17.52	1.53	18.36
97		1,061.28	4.78	1.45	17.40	1.52	18.24
98		1,072.54	4.83	1.45	17.40	1.52	18.24
99		1,083.80	4.88	1.44	17.28	1.51	18.12
100		1,095.10	4.93	1.44	17.28	1.51	18.12
101		1,106.41	4.98	1.43	17.16	1.50	18.00
102		1,117.72	5.03	1.43	17.16	1.50	18.00
103		1,129.03	5.08	1.42	17.04	1.49	17.88
104		1,140.34	5.13	1.42	17.04	1.49	17.88
105		1,151.68	5.18	1.41	16.92	1.48	17.76
106		1,163.01	5.23	1.41	16.92	1.48	17.76
107		1,174.35	5.29	1.40	16.80	1.47	17.64
108		1,185.68	5.34	1.40	16.80	1.47	17.64
109		1,197.05	5.39	1.39	16.68	1.46	17.52
110		1,208.43	5.44	1.39	16.68	1.46	17.52
111	1,219.82	5.49	1.38	16.56	1.45	17.40	

APPENDIX "R"

THE EASY CREDIT FINANCE COMPANY

TABLE OF PAYMENTS
(Retail Instalment Sales Contracts)

Example Table — 18% For 12 Month Contract

The example table would replace add-on type tables presently in use.

The new table provides:

- (a) That all finance charges shown are at 18% p.a. or within an accuracy of $\frac{1}{16}$ of 1% p.a. thereof.
- (b) Balances to be financed advance at \$5.00 intervals.
- (c) Total of payments and finance charges are exact.
- (d) For convenience in accounting monthly payments above \$1.38 are shown at the nearest .05 cents.

The lender might:

- (a) Prepare tables to the nearest cent and make an adjustment for up to .06 cents in the final payment.
- (b) Make an adjustment in the final payment even if the .05 cent interval is used.

In any event, whether or not the tables are refined to the nearest cent or an adjustment is made the actual rate will still be within the $\frac{1}{16}$ of 1% margin of error.

The example table goes up to balances of \$200.00. However it may be extended to cover any balance which is a multiple of \$5.00.

A balance of \$150.00 is 30 times \$5.00. Therefore monthly payments for \$150.00 are 30 times monthly payments of .46 cents or \$13.80 (See example table for balance of \$150.00).

Similarly a balance of \$500.00 (not on this table) would call for monthly payments of 100 times .46 cents or \$46.00)

A clerk might be provided with:

- (a) Only the \$5.00 and .46 cent figures and could, by simple arithmetic, write-up any contract at 18% p.a.
- (b) Alternatively, a lender could prepare full tables scheduled at \$5.00 intervals up to any level of balance which he would customarily experience.

Present tables usually provide a full schedule of balance at \$10.00 intervals up to balances of \$500.00 and at \$20.00 intervals up to \$1,000.00. For amounts over \$1,000.00 multiples of prior table balances are used.

The key to use of the proposed new table is to adjust the down payment (slightly) so as to leave an unpaid balance to the nearest \$5.00. This means a maximum adjustment in the down payments (up or down) of \$2.50. This is not significantly different from present practise which is to bring the down payment to even dollars.

The example table deals only with a twelve month contract and an 18% rate. However, it is obvious that, using the same principles, 6, 15, 18, 24, 30 and 36 month tables (or any other variation) and at any interest rate may be constructed.

Some lenders charge lower rates for higher balances. This shift also may be built into the new tables. Where change in rates occurred an explanatory note on the table would state the different rates. For example

"This table is calculated on the basis of these rates:

Balances from \$5 to \$200 at 18% p.a.

Balances from \$205 to \$500 at 15% p.a.

Balances from \$505 to \$1,000 and over at 12% p.a.

SUMMARY

1. Specifications of the table would be given to a publishing-house equipped to make the necessary calculations.
2. A salesman or clerk would not be required to make calculations (except simple arithmetic computations for balances above the table schedule).
3. The salesman or clerk would, as is now done, enter on the contract:
 - Balance to be financed
 - Finance charges
 - Total of payments to be made
 - Amount of monthly payment
 - The % rate being charged
4. All of this information would be available directly from
 - (a) the terms of sale agreed with the customer
 - (b) the table
5. The rate % p.a. would be obtained by reading and recording the appropriate rate given in the tables.

JOINT COMMITTEE

THE EASY CREDIT FINANCE COMPANY

TABLE OF PAYMENTS

(Retail Instalment Sales Contracts)

EXAMPLE TABLE—18% FOR 12 MONTH CONTRACT

Balance to be financed	Payment per month	*	Total of finance charges	Total of payments
\$	\$	\$	\$	\$
5	.46	.46	.50	5.50
10	.92	.92	1.00	11.00
15	1.38	1.38	1.50	16.50
20	1.85	1.83	2.00	22.00
25	2.30	2.29	2.50	27.50
30	2.75	2.75	3.00	33.00
35	3.20	3.21	3.50	38.50
40	3.65	3.67	4.00	44.00
45	4.10	4.12	4.50	49.50
50	4.60	4.58	5.00	55.00
55	5.05	5.04	5.50	60.50
60	5.50	5.50	6.00	66.00
65	5.95	5.96	6.50	71.50
70	6.40	6.42	7.00	77.00
75	6.85	6.87	7.50	82.50
80	7.35	7.33	8.00	88.00
85	7.80	7.79	8.50	93.50
90	8.25	8.25	9.00	99.00
95	8.70	8.71	9.50	104.50
100	9.20	9.17	10.00	110.00
105	9.65	9.63	10.50	115.50
110	10.10	10.08	11.00	121.00
115	10.55	10.54	11.50	126.50
120	11.00	11.00	12.00	132.00
125	11.45	11.46	12.50	137.50
130	11.90	11.92	13.00	143.00
135	12.40	12.37	13.50	148.50
140	12.85	12.83	14.00	154.00
145	13.30	13.29	14.50	159.50
150	13.80	13.75	15.00	165.00
155	14.20	14.21	15.50	170.50
160	14.70	14.67	16.00	176.00
165	15.15	15.12	16.50	181.50
170	15.60	15.58	17.00	187.00
175	16.05	16.04	17.50	192.50
180	16.50	16.50	18.00	198.00
185	16.95	16.96	18.50	203.50
190	17.40	17.42	19.00	209.00
195	17.90	17.87	19.50	214.50
200	18.35	18.33	20.00	220.00

* To nearest .01 cent.



Second Session—Twenty-sixth Parliament
1964-65

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 15

TUESDAY, MARCH 9, 1965.

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

Retail Council of Canada: Mr. A. J. McKichan, General Manager. Mr. Nels Liston, Member of the Association. Mr. J. W. Irwin, Member of the Association. Mr. H. A. Simmons, Member of the Association.

APPENDIX

S—Supplementary Brief from the Retail Council of Canada

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett

Irvine
Lang
McGrand
Smith (*Queens-
Shelburne*)

Stambaugh
Thorvaldson
Vaillancourt—11.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserdén
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved—That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Con-

sumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses be represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills has been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, March 9, 1965.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw, Hollett, McGrand and Smith (*Queens-Shelburne*), and

House of Commons: Messrs. Greene (*Joint Chairman*), Chrétien, Clancy, Miss Jewett, Messrs. Macdonald, Mandziuk, Marcoux, Nasserden, Otto, Saltsman and Scott. 16.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

A supplementary brief submitted by the Retail Council of Canada was ordered to be printed as appendix S to these proceedings.

The following witnesses were heard:

Retail Council of Canada: Mr. A. J. McKichan, General Manager. Mr. Nels Liston, Member of the Association. Mr. J. W. Irwin, Member of the Association. Mr. H. A. Simmons, Member of the Association.

In attendance but not heard was: Mr. Paul Harrison, Member of the Association.

At 11.15 a.m. the Committee adjourned until Tuesday next, March 16th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, March 9, 1965.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: Gentlemen, I see a quorum. At our last meeting I told you we had sent away for the Tallin Commission Report, which was made for the Province of Manitoba, as we thought it may deal with consumer credit in the field that we are studying. We received a copy of the report and it is available for anyone who wishes to read it. It is out on loan to a member of the committee at present, but if you give your name to our clerk you will be next in line on the list.

Since we met, the Royal Commission on Consumer Credit in Nova Scotia has completed his work. You will remember the commissioner, Mr. Arthur R. Moreira, who was present at the provincial meeting which we had in this room. He has made his report to the Provincial Secretary, the Honourable Gerald Doucette. I understand it is a 500-page report, and the study took a couple of years. We have wired for a copy, but it will take a few days to reach us.

A recent press report indicates that the British, who have been struggling with the problem of disclosure, have come up with an answer. It appears to encompass those things we have been discussing, particularly in connection with disclosure. Mr. Greene and I asked our counsel to get in touch with the British High Commissioner, to find out what information documents we could obtain, and we expect they will be here in a very short time.

Mr. Greene and I have been discussing the situation which might arise if this committee decides that there is some constitutional dilemma concerning interest. We think we should give you the benefit of our conclusions. We think that any such dilemma may be resolved much more easily now under the proposed new act to amend the constitution. Section 13 talks of the delegation of authority from the province to the Dominion, or from the Dominion to the province, where four provinces can agree with the Dominion. We feel that may overcome any decision of the Supreme Court which may trouble us. That is our present opinion, but we think it is worth considering and we have asked our counsel to look into the matter.

At the last meeting, Mr. Scott, Mr. Mandziuk, Mr. Macdonald and Mr. Orlikow asked that those gentlemen who were here on behalf of the Retail Council of Canada be requested to reappear. They have been glad to do so and they are sitting now on my right. We have Mr. A. J. McKichan, General Manager; Mr. H. A. Simmons, Credit Manager, Gordon Mackay & Company, Walker Stores; Mr. Nels Liston, Credit Manager, Simpsons-Sears, Limited; Mr. J. W. Irwin, Chief Accountant responsible for credit at corporate level, T. Eaton Co. Ltd., and Mr. Paul Harrison, Regional Controller Hudson's Bay Company.

Yesterday afternoon they met with our counsel and our accountant. I will ask Mr. Urie to speak of the discussion.

Mr. URIE: MM. Chairmen, we had a rather lengthy meeting yesterday with the gentlemen who are appearing before us today. We discussed, in more detail than we did on their last appearance before the committee, some of the problems with which these gentlemen are faced in their day-to-day operations of credit. You will recall that at their last appearance it was conceded that, in all branches of credit other than revolving or cyclical accounts, it was possible to express the rate of charge or cost of credit as a per cent per annum. At that time, it was stated that, in the case of instalment buying with add-on privileges, it would be possible, perhaps, to express the cost as a per cent per annum. However, in the case of cyclical and revolving credit, this was impossible. It was conceded that it might be possible to derive a formula whereby the cost would be expressed as a per cent per month. Although, even at that, it was thought that there would be a considerable degree of inaccuracy. However, I think the gentlemen who are appearing before you today will now state that on further consideration they do not believe that with instalment purchases with add-on privilege it is possible to express the cost as a per cent per annum; and they, of course, have not changed their view with respect to cyclical or revolving credit. I think it is fair to say, subject to what they have to say themselves, of course, that in general they would agree that it might be advisable to impose a maximum charge per month for credit on cyclical and instalment buying with add-on privileges.

I think in general that is a brief resume of what transpired yesterday. I think the questioning and the brief that will be presented today will probably elicit further information.

I think that is all I can say, Mr. Chairman.

Mr. A. J. McKichan, General Manager, Retail Council of Canada: Mr. Chairman, as I understand it, our principal purpose in appearing before the committee today is to elucidate as far as we can the information which we had in the exhibits and which were filed with the committee at our last appearance, and also to elucidate the answers we gave in a written form to certain questions which had been posed by certain members of the committee at our appearance.

I think it is fair to say that the main burden of the exhibits which we filed with the committee was to demonstrate as best we could that in fact revolving accounts and instalment accounts with add-on privileges were not susceptible to the calculation of interest rates on a simple annual rate basis.

Mr. Irwin, Financial Consultant to the Ontario committee, who appeared before you, substantially shared our views, after conducting what appeared to be a very exhaustive and complete study of the matter.

We recognize, and have recognized all along, that so far as simple instalment accounts are concerned, there may be difficulty in some cases, but there is no impossibility in stating the simple annual interest rate, and Mr. Irwin came to this conclusion.

Mr. Irwin also concluded that so far as revolving accounts are concerned this is not in fact possible. Here we are absolutely on all fours with Mr. Irwin.

So far as instalment accounts with add-on privileges are concerned, Mr. Irwin expressed the thought that possibly something could be arrived at, and indeed, this may be the case, but in fact we would in this event end up with a simple annual interest rate on single instalments—a rate per month perhaps on cyclical revolving types of account, and a third type of rate on instalment accounts with add-on privileges. We feel this can be done, and if the committee so desired and legislation is implemented, and recognized and passed, we could then, of course, abide by this. However, we had some reservations as to the utility of this, because instead of a single yardstick, which the committee we

know was grasping for as a means of measurement for the wise use of credit, we will have what might not prove to be the case.

We were forced to return from time to time to the thought that probably an expression in dollars is the best single yardstick that can be devised. But as Mr. Urie mentioned in our discussions yesterday, allusion was made to the situation in various of the United States where legislation has been introduced regulating credit and where the regulation has taken the form of a maximum rate. What we are actually concerned with is not a disclosure type of legislation but a maximum rate legislation.

We understand further that the retail communities in several of these states are living quite happily with this legislation.

We hesitated to make an outright recommendation for legislation of a similar type because, first of all, we know that in some states the limit has been set at a level which is unrealistic and which has restricted the granting of credit and not been good for the health of the economy.

We believe that a further danger presents itself, and that is the difficulty that may be found in reviewing the rate when circumstances make such a review desirable and necessary. We have an example of what could happen in this regard by the present dissatisfaction of the small loan companies about certain of the rates that are appearing in their schedules. We have the example of transportation companies which are concerned about rates which have been fixed some time in the past and are no longer realistic; and we have, of course, the concern of the banks. So it is with some hesitation that we make any recommendation, a flat-footed recommendation for control legislation, and it is a suggestion which has not been canvassed among our members. However, as we say, if a means could be devised of building into this legislation some means for its review, perhaps some means for its establishment by a committee of the trade, or jointly of the trade or the government, and if the rate could be set at a level which was not the going rate, but which was a maximum rate, probably considerably above the going rate, then we felt that legislation of this type might well have merit and that it would curb, certainly, excesses. But we feel this is a subject for probably a good deal more study to be done, and where in the future we would be happy to consult with the committee.

Mr. Chairman, with your permission I would like to comment on one or two pieces of evidence which have been presented to the committee, and of which we have either some knowledge or some reservations.

Perhaps I might turn to the first suggestion about the situation in the British Isles, where we are aware of the legislation that has been introduced and which in fact provides that when suppliers of credit advertise the rates at which they are going to provide this credit they are obliged to state this rate according to a specified formula set out in the legislation. We believe this legislation is workable in the United Kingdom, because in fact they do not have any revolving type of credit in the United Kingdom; it simply has not percolated into the United Kingdom's economic system.

Secondly, we read with some concern an editorial in a Toronto newspaper which stated that Mr. Irwin had told the committee that, privately, retailers will make admissions that full disclosure of rates is feasible, but that in fact the real hesitation of the retailers was that they were afraid to compare whatever rates—effective rates—they were granting with the rates granted by banks. We believe in fact this is a distortion of what Mr. Irwin said, and certainly when the members of this committee had a private meeting with Mr. Irwin after our appearance before the Ontario committee, they did not take this position. We have said in public and in private that the reason we cannot endorse any simple annual interest rate is because in fact it is impossible to apply to cyclical type of accounts, and we were including with cyclical both revolving accounts and instalments accounts with add-on privileges.

Another piece of evidence to which we wish to allude is the suggestion that in five states of the United States of America there is legislation which requires the disclosure of interest rate on simple annual interest rate terms. It is our understanding that in no state in the United States is a retailer obliged to quote a simple annual interest rate as the only method of quotation.

In some states it is an alternative method to dollar disclosure, or disclosure of some other nature. In no state is the cyclical system rendered unworkable as it would be if legislation of this type were introduced. However, this a matter on which the committee, no doubt, can well inform itself.

A third piece of evidence on which we wish to comment is the suggestion made by Mr. Irwin that once retailers had all their credit systems on computers, that even in the case of cyclical accounts the simple annual interest rate problem would be solved. Here our members believe that this is a simplification of the problem, that there are still technical problems which present themselves regarding the reporting of purchases to the central accounting system and regarding the difficulties of making random access to information on computers and so on. This problem does not really concern us at the moment because we are very far from having all retailers on a computer basis.

I did not intend to allude in detail to the information contained in either of these documents, because we feel that the general tenor has, in fact, been endorsed by Mr. Irwin and we believe that Mr. Irwin's evidence has found favour with members of the committee.

I would like to end on the note that we feel perhaps the more positive approach, or the more positive work is, perhaps, more in the area of control legislation rather than the attempt to find a yardstick apart from the dollar yardstick and, perhaps, more in the area of control of the form of contract, possibly in part by an extension of the unconscionable transactions type of legislation. We think there must be discussions, but it certainly would be, perhaps, more fruitful and productive in that area than the attempt to find a very simple yardstick for what is essentially a very complicated problem.

I might add that the trend in the United States seems to be to regard the problem as indeed a complex one and to devise specialized forms of legislation for specialized types of account. We know in some states there is special legislation for automobile dealers and special legislation for retailers, and such special legislation admits of difficulties experienced by different traders. However, on the whole I think it is probably more realistic than a blanket form which might do considerable damage.

On the desirability of preserving our existing forms of credit, we also found encouragement in the recent report of the Economic Council. They made specific allusion to the fact that they felt that more and more the control of the stimulus of the economy was passing to the consumer as a group rather than to industry or finance, and because of this we feel the necessity for taking a close look at whatever they do in this field as it becomes even more important.

Thank you.

Co-Chairman Mr. GREENE: Does any other gentleman wish to make a speech? Any questions?

Mr. MACDONALD: From what you say I gather your comment with regard to disclosure would be exhausted if any legislation exempted add-on and cyclical accounts.

Mr. McKICHAN: If it exempted both, our comments would be exhausted.

Mr. MACDONALD: There was some discussion when you were last here as to whether or not your members make a profit on the financing aspect of sales as opposed to the outright sale itself. Mr. Irwin suggested that whether or not a profit appears depends on the controller of each particular company. Would your members share that particular viewpoint?

Mr. McKICHAN: I think there is an element of truth in that, in that many of the divisions of cost, must of necessity be arbitrary. If somebody was striving to show a profit on the credit operation, then probably by an appropriate division of various costs they could do so, but the general feeling in the retail industry is that the provision of credit is not a specially profitable one.

Mr. MACDONALD: Is there unanimity of practice in this regard in large firms?

Mr. McKICHAN: My information is that this is not the case.

Mr. MACDONALD: I forget if we discussed this before, but as part of the retailers' sales business in this item of revolving credit, do you take longer term obligations in the case of a washer or something like that—do you take, for example, a promissory note?

Mr. LISTON: No.

Mr. MACDONALD: Do any of your members?

Mr. McKICHAN: This may be done by some members who are engaged primarily in the sale of appliances.

Mr. IRWIN: I think this is true of cases where financing is secured through a finance company.

Mr. MACDONALD: With regard to this, what would the council's comment be with respect to suggested legislation whereby on the face of a promissory note you would have "this instrument given in connection with retail transactions" so that the equities of the retailer would be carried forward to any endorsee? This would, of course, greatly affect the ability to discount these instruments.

Mr. IRWIN: I believe most finance companies do require that and for that reason there is not much choice in the matter. If the finance company with which you are dealing requires a promissory note as part of the transaction, then you have no choice in the matter or not very much choice.

Mr. MACDONALD: Has the council made any study of the possible effect of, say, an amendment to the Bills of Exchange Act which would take into account situations like this?

Mr. McKICHAN: We have not considered it in detail, but we would be happy to take it under advisement.

Mr. MACDONALD: There are many bills which show that, but you haven't explored that question?

Mr. McKICHAN: No.

Co-Chairman Senator CROLL: Didn't that arise with the committee in Toronto? I understood they discussed that.

Mr. LISTON: This is not something that we dealt with in our hearing, I believe.

Mr. MACDONALD: I suppose there would be no real contest so far as a promissory note is concerned. It would be exclusively in our jurisdiction.

Co-Chairman Mr. GREENE: Any further questions.

Mr. MARCOUX: You said you would agree on a ceiling of interest above the ones used today. This would be to prevent abuses, if possible. Do you see any abuses today in the business?

Mr. McKICHAN: We don't believe any abuses are taking place among our members. Our members, of course, represent more of the larger companies across Canada, and it is possible that there may be abuses conducted in the retail field.

However, I think it is only fair to say that there have been no significant public complaints about such abuses in the retail field, and I think the main

public complaint has been in other areas, in the mortgage areas and so forth. In other words, I do not think the retail field presents a big problem, if that problem in fact exists.

Mr. MARCOUX: But if there is an abuse, you say it is an abuse of the interest rate?

Mr. MCKICHAN: I would say this is probably where the problem arises.

Mr. MARCOUX: What would be your figure on interest rate that would constitute an abuse?

Mr. MCKICHAN: This is a difficult question to answer. Some of the states in the United States have a rate of 2 per cent per month on balances. This is probably not an unreasonable figure. It is well above what is the going rate, but I do not think you should attempt to set a maximum rate at the going rate because it creates inflexibility. I think it is also very important, if this type of legislation is contemplated, that very serious consideration be given to a built-in review of the rate as circumstances alter.

Mr. URIE: Mr. McKichan, in connection with your initial presentation you mentioned the fact that in various states of the United States there is already in existence legislation imposing maximum rates. Now, as you probably know, in his presentation Mr. Irwin told us that in California the Unruh Act dealing with retail instalment sales provides for a charge of not more than five-sixths of one per cent times the number of months in the contract on balances up to \$1,000, and on balances over \$1,000 the rate to be charged is not more than two-thirds of 1 per cent times the number of months on a contract. He said that is the equivalent to an add-on rate of 8 per cent, and one under \$1,000 is equivalent to an add-on rate of 10 per cent.

He also stated in some States the rates they have been setting are unrealistic and have caused a reduction in the amount of credit advanced, and probably it has an effect on the economy as a whole. With particular respect to California, what do you feel about those rates, or what is your view with respect to that?

Mr. LISTON: Our information from the people in the United States is that they are very happy with that legislation. Retailers are behind the California legislation.

Mr. URIE: What about the New York State legislation?

Mr. LISTON: I believe they would consider California and New York are very similar. They are very happy with the situation.

Mr. URIE: Can you tell me what are the States in which the rates are, as Mr. McKichan put it, unrealistic in light of present circumstances?

Mr. LISTON: I am not positive, but I think Nebraska is in that category, but I am not positive. We could find out that information.

Mr. URIE: All right. In our discussion yesterday you said you would ascertain, if you could, any States in which there were embodied in the legislation built-in review provisions.

Mr. LISTON: To the best of my knowledge, from what I could find out, there is no such thing built in any legislation.

Mr. URIE: Have you any suggestions along those lines?

Mr. MCKICHAN: Mr. Urie, one suggestion which I made in my opening remarks, which is at this stage still fairly tentative, is that possibly something could be done towards establishing an industry board or an industry—government board which would be empowered to recommend rates from time to time.

Co-Chairman Mr. GREENE: What about the consumer? Do you give him any representation?

Mr. McKICHAN: I think, Mr. Chairman, it is generally agreed that so far as possible there should be as much freedom as possible in setting rates, and the danger arises where an inflexible statute does not allow the market to find its free place in this. I think the consumer would be protected by the competition among the lenders themselves.

Co-Chairman Senator CROLL: The best protection the consumer can have is a wide-awake Member of Parliament, such as you see around this table.

Co-Chairman Mr. GREENE: Yes, but we represent the finance companies too. We represent all the people.

Mr. MACDONALD: Mr. McKichan, you may recall that you and I had a discussion on November 17 about the increase in retail sales credit over a period of 14 years. I just wanted to question you about some of the figures in your brief. The figures in response to question No. 1, I take it, are D.B.S. figures?

Mr. McKICHAN: Yes, they are.

Mr. MACDONALD: That is total sales, whether cash or credit sales?

Mr. McKICHAN: Yes, that is correct.

Mr. MACDONALD: Were you able to find any figures at all for credit as opposed to cash sales, either by department stores particularly or other types of retail stores?

Mr. McKICHAN: As far as I am aware, these figures do not exist. Another problem presents itself so far as cyclical credit is concerned, which I believe is your particular concern. Cyclical credit is not separated in the figures reporting other types of credit, and obviously it cannot be because a lot of this credit is used as a 30-day charge account and, in fact, does not turn out as cyclical credit.

Mr. MACDONALD: I put a figure of \$78 million up in 1951, as opposed to \$401 million now for department store credit outstanding, and you agreed the \$401 million seemed to be about right, but was that just an approximation on your part? You have no firm way of knowing whether that is right or not?

Mr. McKICHAN: It is approximately correct, I think. I did not add at the time you asked the question, but it occurred to us afterwards that the year we were selecting as a base year was either at the time of or just after the Korean War, when there had been very severe restrictions on consumer credit, so the difference in the levels is exaggerated by this fact.

Mr. MACDONALD: I have now forgotten where I got the figures from myself, but the \$401 million still seems to be, even in the light of these figures, a fair estimate of the retail store credit outstanding in 1963 or 1964?

Mr. McKICHAN: Yes, sir.

Co-Chairman Mr. GREENE: Mr. McKichan, I wonder if you could help us with this. In the event that there was legislation proposed that made disclosure mandatory for the non-cyclical and non-open end accounts, is there any definition that you can suggest to the committee as to the type of accounts which should be exempt from disclosure which would not lend itself to abuse? Naturally, if there is disclosure in simple annual interest for one group and not for another, every person trying to abuse the laws would strive to get into the group where disclosure is not necessary. Could you help the committee by giving some sort of definition or ground rules whereby the sheep might be separated from the goats?

Mr. McKICHAN: Mr. Chairman, a form of words was evolved in the Province of Alberta when they wished to exempt this type of account from their disclosure legislation. We were not quite happy with the words which were used, but I think a form of words could be evolved to describe the type of accounts.

Co-Chairman Senator CROLL: What were the words that were used?

Mr. LISTON: I believe the plans were referred to as continuous deferred payment plans. I am not sure this would stop the abuse, though, of somebody changing their form of plan.

Co-Chairman Senator CROLL: "Continuous deferred payment plan"?

Mr. LISTON: Yes. I think this is probably the reason—at least, our information is this is the reason in the United States that they favour this maximum rate on these types of accounts, so that at least abuses of exorbitant rates will be curbed.

Mr. McKICHAN: I am sorry, but I do not have the wording of the legislation with me, but I believe that it is right.

Mr. LISTON: "Continuous deferred payment plans".

Mr. McKICHAN: That is right.

Mr. CHRÉTIEN: I have a question. If I heard you correctly you said that disclosure of the interest in respect of cyclical credit is impossible, or almost impossible; is that right?

Mr. McKICHAN: We believe that is correct.

Mr. CHRÉTIEN: What would you think would be the effect of there being no possibility of having cyclical credit because of its being impossible to disclose the interest rate? Suppose we say that cyclical credit is no longer possible; what would be the effect of that?

Mr. McKICHAN: We think the effects would be adverse, and probably quite severely adverse, because most retailers who employ this type of credit regard it as a great stimulus to sales. While no conclusive statement can be made on this because the experiment has not been made, we believe that if this type of retail credit were abandoned there would be serious repercussions on sales. It is possible that the pattern might readjust itself after some time, but we believe that this hiatus could well induce very serious economic effects, and possibly the damage would be permanent so long as that type of account were not allowed to function.

Co-Chairman Mr. GREENE: Have you done any research in depth into that problem? You seem to have a most valid argument for your point of view. You have given us this thought off the top of your head, so to speak, before, but have you done any economic research in depth, and in particular in the jurisdictions which now have any sort of restriction, be it disclosure or be it maximum rates, as to the economic effect of legislation in this area?

Mr. McKICHAN: We have not done any research, sir, on this subject and, indeed, it is difficult to see in what area the research could be directed when there has never been an occasion of this actually happening. To my mind, any opinions formed on this must necessarily be subjective ones.

Co-Chairman Mr. GREENE: There has been legislation in regard to maximum rates in at least five jurisdictions in the United States. We have not too much information as to the European picture. Have you done any economic research, the results of which might help the committee, on the effect of the maximum rate of interest legislation in any of these jurisdictions?

Mr. McKICHAN: We have not conducted research on this, but it is our understanding that in the United States where the maximum interest rate is set at a level which retailers regard as too low, the effects on the economy in those states have been adverse, and quite severely adverse. In the United Kingdom the problem does not arise because, as we mentioned, the revolving type account has not occurred there, and its use, as a result, has not been affected.

Co-Chairman Senator CROLL: But the example we gave of two states that used a maximum formula are the two largest states in the United States—New York and California. In those states is there any complaint about the maximum rate? Has it had an adverse effect on credit?

Mr. McKICHAN: No, sir; our understanding is that the rates that are set are rates with which the retailers are quite happy to live under present circumstances, and it has had no bad effect.

Co-Chairman Senator CROLL: You said the only one that you could think of which has set rates about which there are difficulties is Nebraska.

Mr. McKICHAN: That is the only one of which we have knowledge.

Co-Chairman Senator CROLL: I do not think Nebraska has full disclosure. I think that was New Hampshire.

Miss JEWETT: Are you saying that it is in Nebraska that there has been an influence on the economy?

Mr. McKICHAN: That is correct.

Miss JEWETT: How is this gauged or judged?

Mr. McKICHAN: My understanding is that it is purely by the level of economic activity in that state as compared with that in other states, and a certain reluctance on the part of retailers to do business in that state.

Miss JEWETT: This is only one variable, of course, and there is a number of others that might affect the situation.

Mr. McKICHAN: That is true.

Miss JEWETT: In the United Kingdom how is it that they get along without a revolving credit system?

Mr. McKICHAN: I think this feature of credit just simply has not developed in the United Kingdom. After all, it is only in the last ten years that this form of credit has been common in Canada. I would assume that the lag in economic development in the United Kingdom compared with that of North America accounts for the fact that it has not been introduced in Great Britain.

Miss JEWETT: What do you mean by "lag in economic development"? Their growth has been comparable to ours.

Co-Chairman Mr. GREENE: It is the Labour government.

Mr. McKICHAN: What I meant was the standard of living.

Miss JEWETT: I think there is a lot yet to be discovered about the real impact of this on the economy. If I may revert for a moment, I did not understand you clearly when you said a moment ago that both cyclical and instalment accounts would be difficult to include in a disclosure plan. That seems to be not entirely consistent with what you state on page 5 where, unless I am reading it incorrectly, you suggest that the publication of a percentage per month on an outstanding balance would be possible with cyclical accounts.

Mr. McKICHAN: Is this in the fourth paragraph?

Co-Chairman Senator CROLL: The third paragraph.

Mr. McKICHAN: Mr. Chairman, when we refer in this passage to the cyclical type of account we are referring to the revolving type of account. We agree that it is possible to quote a percentage per month on the outstanding balance in respect of these types of account.

Miss JEWETT: Which would provide a degree of disclosure?

Mr. McKICHAN: Yes, a degree of disclosure; yes, indeed.

Miss JEWETT: That is not quite consistent with what you say at the bottom of page 4, which is:

It is believed that there is now general agreement that it is impossible to devise a system of disclosure which would have application to both cyclical and instalment accounts...

Mr. McKICHAN: We imply there that it is impossible to devise a system which gives the same information about a single transaction type of contract as it would in respect of a revolving type of transaction or an instalment transaction with add-on privileges. On the one hand you are quoting a simple annual rate and on the other it is a percentage per month. It would be possible to quote a percentage per month both on a single transaction type of contract and on a revolving credit transaction.

Miss JEWETT: But not on the instalment account?

Mr. McKICHAN: No, it would be a slightly different figure.

Mr. MACDONALD: Mr. McKichan, as I understand it, there are differences between the types of revolving and cyclical accounts used by each of the major retailers such as Simpsons, the Bay and Eatons?

Mr. McKICHAN: That is correct, sir.

Mr. MACDONALD: Are the differences more than peripheral differences or are there substantial differences between the types of accounts used?

Mr. McKICHAN: In the case of cyclical accounts the differences are of a fairly minor degree. In the case of instalment accounts with add-on privileges different methods of calculation of the charges are made.

Mr. MACDONALD: Well, I wondered with regard to the ones in which there are differences why there are differences as between the various companies. Is it just a judgment that the competitive advantage is better by doing it one way than another? Perhaps the fairer thing to do would be to exclude everyone and then ask the Bay about it, and then exclude the Bay and ask Eatons and so on, because this may be a commercial secret. Is it the feeling that one has more sex appeal than others?

Mr. McKICHAN: This is partly it, and it is partly because of the plans themselves, and it is partly for competitive reasons or because of an attempt to judge what particular customers want or require.

Mr. MACDONALD: Would I be right in assuming you would not be particularly delighted if there was legislation which stipulated the kind of account that you could operate, and no other?

Mr. McKICHAN: I think this is true, but perhaps our members would like to speak on this.

Mr. MACDONALD: Mr. Liston, would you mind very much if the element of choice were taken away from you in respect of this, apart altogether from the question of philosophy?

Mr. LISTON: Of course, that is an area that I would be really disturbed about—the possibility that you would not have a free choice of what kind of account you are going to offer. There is no reason why one type of account for everyone would not work.

Mr. MACDONALD: And could you operate on that basis if you had to?

Mr. LISTON: Oh, sure.

Mr. URIE: Mr. McKichan, if it were decided that it was necessary to require disclosure on cyclical and revolving accounts on a monthly basis, I take it that you would agree it is necessary that the formula which is used by all would have to be the same?

Mr. McKICHAN: That is correct, sir.

Mr. URIE: At the moment Eatons has one system, Hudson's Bay has another and Simpsons have yet another. Could you tell the members of the committee

what matters should be covered in a formula, or what type of formula should be used? Yesterday we discussed this to some extent, as you will recall. For example, I think Mr. Liston mentioned this at the break-off point.

Mr. LISTON: I think it gets back to Mr. Macdonald's point that if you require disclosure in terms of percent per month, and if you want everybody to be the same, and you want an exact comparison, then the kind of account that every retailer operated would have to be the same. For example, if $1\frac{1}{2}$ per cent is a reasonable amount of carrying charge, it seems to me that this will have to be spelled out in the legislation.

Mr. URIE: Are you suggesting that at the moment there is any basic difference between the various accounts which you operate, other than the name or in the rates which you charge—

Mr. LISTON: Varying rates—

Mr. URIE: Varying rates—but for example in the Hudson Bay Company chart submitted at the last meeting, it was shown that between \$200 and \$225 it was 1.4 per cent, and as it got higher it was down to 1.3 per cent and so on. Is that the type of thing in which there must be uniformity for a formula to apply?

Mr. LISTON: Yes.

Mr. URIE: This would not take away from any of the flexibility which you have at present in advancing credit?

Mr. LISTON: Presumably we are different now, for different reasons. We think, for one reason, that this is a proper schedule; the Hudson Bay people, for another reason, think that theirs is; Eaton's feel, for another reason, that theirs is. Therefore if you go to the extent that you must offer a similar formula, there is no freedom of choice.

Mr. URIE: The only possible reason there could be differences of opinion is in the question of competitive advantage?

Mr. LISTON: Yes.

Mr. URIE: So in that particular field it takes out competitive advantage, and that is the field in which you do not make any money, or only a marginal amount of profit, so it could not make any difference.

Mr. LISTON: You could get a situation where one person is charging $1\frac{1}{2}$ per cent and breaking even; and another is charging $1\frac{1}{4}$ per cent and breaking even; that being due to the size and efficiency and so on. If you force both to go to $1\frac{1}{4}$, then the person who is charging $1\frac{1}{2}$ per cent will be in difficulty.

Mr. URIE: He will have to become more efficient.

Mr. LISTON: He may have to get more volume or something else may be involved over which he has no control.

Mr. CHRÉTIEN: I want to come back to cyclical credit. Is there the possibility to make a limitation of the amounts of cyclical credit? Would it be possible to have it up to \$100 or \$200, but not more; and that, if there is more credit than that amount, you will be obliged to make a distinct account for this and not have it in the cyclical credit arrangement?

Mr. McKICHAN: I think our members would be loathe to endorse a suggestion like that, because the general trend in the retail trade is towards cyclical credit. It has been found that this is the kind of credit which is easiest for the customer to operate and which has the greatest stimulus on purchasing decisions. It has a great virtue, in that the customer is not obliged to go to a credit office every time he consummates a purchase. Apparently, this is a feature which is very attractive to the customer.

Mr. LISTON: The other thing this would do would be create necessity for one customer to have two accounts, which in my opinion is not desirable.

It would mean two payments, it would mean more work by the retailer and more cost, and therefore higher payments generally for the consumer.

Mr. McKICHAN: To supplement what Mr. Liston has said, the general feature of the cyclical account is that the charges decrease as the balance goes higher, so when a variety of purchases is put on the same account, the customer benefits to the extent that his charge for the whole, in proportion, is reduced.

Co-Chairman Mr. GREENE: Can you help the committee by providing any statistics to show as to what percentage the cyclical accounts and the open end accounts are in the \$100, \$200, \$300, \$500, \$1,000 category. Do you have any statistics in this regard?

Mr. McKICHAN: I do not think there are any industry statistics.

Co-Chairman Mr. GREENE: You might not want to disclose them individually, but if there are statistics industry-wide, it would seem important to know that, say, 95 per cent of cyclical accounts are, on the average, under \$300 or under \$500, and so on.

Mr. LISTON: I think most of us deal with average balances in total, as opposed to the middle of the balance. I do not think I would be disclosing any secret in saying that in the average department store the average balance would run somewhere between \$125 and \$150, but how many of them are in each category I am not sure.

Mr. McKICHAN: We could develop some figures on this, if the committee would be interested.

Co-Chairman Mr. GREENE: I suggest that, in view of Mr. Chrétien's approach, those statistics might be of some use, in regard to any proposal for legislation, if it ever came that far, that accounts over a certain amount could no longer be cyclical. It might be helpful to have statistics of this kind. In so far as your industry is concerned, the legislators would know then how much of the business they were taking out of the cyclical area, if they proposed such legislation.

Mr. McKICHAN: We could look into that question and endeavour to make some sort of survey.

Mr. SIMMONS: We have surveyed some of the stores in our chain and the average balance in a few stores. Because of low volume of credit, and the type of merchandise that we sell in the store, the average account balance could be in the neighbourhood of \$40 to \$50. But in the case of other stores handling larger ticket items, the average balance could be double this, \$70 or \$80 or more.

Co-Chairman Mr. GREENE: Do you have any statistics to indicate which size of stores, of the large type stores, have cyclical or add-on accounts systems? From the evidence we have received, I gather this is not common to the smaller retailer, this is something that is used very largely by large departmental stores and no one else. Do you have any breakdown that would help the committee in this regard?

Mr. McKICHAN: We have approximately fifty member stores who grant some form of credit—I should say fifty member companies, for many of the companies have many stores. Of those fifty, twenty-six employ some form of cyclical credit; twenty-six employ some form of instalment credit with add-ons; and the balance would provide either 30-day charge accounts or single transaction type accounts. Of those twenty-six in both categories, several provide both and several will, in addition, provide cyclical credit plus 30-day credit plus single transaction credit. So there is a considerable mixture in the type of credit available. We do not have figures on an industry wide basis and I think it would be difficult for us to compile them. We might get some guidance from some

of our associated associations in various specialized trades, but the picture we could come up with as a whole would not be very comprehensive.

Co-Chairman Mr. GREENE: I think the one problem which the committee is bound to be faced with, or which the legislators may have to face, is whether cyclical credit and add-on accounts can be resolved into simple annual interest by complex business machines, and, if so, this surely would not be outside the capabilities of the department stores to furnish that kind of equipment, but the individual small retailer would probably find it outside his capabilities. Therefore, I think this kind of information might be useful.

Mr. SIMMONS: We made a very detailed study of the cost of computer installation in our chain, which is a medium sized chain of small junior department type stores; and the cost was something that we felt we could not afford at present.

Mr. McKICHAN: I think the committee would draw a misconception, if they thought having a computer was the answer to the solving of this problem. Some of our members do have computers but their practical problems are almost as severe as in the case of those companies which do not have computers.

Mr. LISTON: In reading Mr. Irwin's brief, you will see he had consulted a computer and worked out tables; but, even with that help, he did not solve the simple annual interest rate problem, but only the problem of add-on costs merely on a single transaction.

Mr. MACDONALD: That is correct.

Co-Chairman Mr. GREENE: From the evidence we have, I understand that in some of the jurisdictions where they have approached the problem from the standpoint of setting a maximum, a very comprehensive program of public information has been made available in the stores, in the press and elsewhere, to show the public what rate of interest per annum, on an add-on-basis, was actually involved in certain monthly rates. This was to make consumers very much aware of what the rates were that he was paying when he went into a store, and was quoted on a monthly basis or was quoted the maximum. Do you feel this approach to the problem is a sound one, or do you have comments to make on public information by the government in this area?

Mr. McKICHAN: We take the approach that the more education the consumer has on credit, and the use of credit, the better, and certainly we endorse the action which is being taken in instructing students in schools as to the whys and hows and the use of credit and what its implications are. Certainly the members of the Council would endorse any campaigns designed to enlighten the public on the subject.

Co-Chairman, Mr. GREENE: Any further questions?

Ladies and gentlemen of the committee, next week we have the Retail Merchants Association of Canada as our witnesses. On March 23 we have the Federated Council of Sales Finance, and on March 30 we have the Canadian Consumer Loan Association. That is our agenda for the next three weeks.

Mr. MACDONALD: Could I ask in this connection what is the difference between the Retail Merchants Association of Canada and your organization?

Mr. McKICHAN: The two associations are parallel associations, and while there is some overlapping in our membership—some of our members also belong to the Retail Merchants—generally speaking our merchants are composed of larger companies and the other is composed of smaller merchants. We also have associated with us various specialized associations, such as The Furniture Association and so on. The Retail Merchants is primarily an association of smaller merchants.

Co-Chairman, Mr. GREENE: There is nothing further. I think we can adjourn. Thank you very much, gentlemen.

The committee adjourned.

APPENDIX "S"

Supplementary Brief

from

THE RETAIL COUNCIL OF CANADA

to

THE SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF
COMMONS ON CONSUMER CREDIT

At its appearance before the Joint Committee on November 17th, 1964, certain specific questions were directed to Council representatives. Further, the general concept of applying the principle of rate per month disclosure to cyclical type accounts was also discussed. While no specific question was framed on the subject, it was indicated that the Council's considered view on this suggestion would be welcomed. The Council's views on the questions raised are as follows:

*Specific Questions*1. *Question:*

What is the total of retail store sales today and equivalent figure for nine years ago.

Answer:

The last complete figures available are for the year 1963.

Retail store sales in that year were as follows: *

Grocery and combination	\$ 3,937,844,000.00
**Other food and beverage	1,386,314,000.00
General	706,442,000.00
Department Stores	1,649,080,000.00
Variety Stores	405,739,000.00
Men's Clothing Stores	293,468,000.00
Family Clothing Stores	256,739,000.00
Women's Clothing Stores	307,618,000.00
Shoe Stores	180,575,000.00
Hardware Stores	346,600,000.00
Furniture, Appliance and Radio Dealers ..	580,995,000.00
Drug Stores	456,511,000.00
Jewellery Stores	141,848,000.00
Miscellaneous Other	2,296,693,000.00
Total	<hr/> \$12,946,466,000.00 <hr/>

**Includes sales of alcoholic beverages

Comparable figures for 1954 were: *

Grocery and combination	\$2,279,000,000.00
** Other food and beverage	924,000,000.00
General	515,000,000.00
Department Stores	1,062,000,000.00
Variety Stores	234,000,000.00
Men's Clothing Stores	207,000,000.00
Family Clothing Stores	191,000,000.00
Women's Clothing Stores	221,000,000.00
Shoe Stores	121,000,000.00
Hardware Stores	247,000,000.00
Furniture, Appliance and Radio Dealers ..	486,000,000.00
Drug Stores	282,000,000.00
Jewellery Stores	116,000,000.00
Miscellaneous Other	1,412,000,000.00
<hr/>	
Total	\$8,297,000,000.00

* The following categories have been omitted: Motor Vehicle Dealers, Garages and Filling Stations, Lumber and Building Material Dealers, Restaurants, Fuel Dealers. The categories in which credit granting is most common are, of course, Department Stores and Furniture and Appliance and Radio Dealers.

** Includes sales of alcoholic beverages

2. Question:

What is the total amount outstanding on cyclical credit today and total cyclical credit outstanding nine years ago.

Answer:

No published figures segregate credit granted on a cyclical basis from other forms of credit. Indeed, it would be impossible to collate such figures because a considerable number of customers, by making payment of their cyclical accounts within 30 days of their billing date, are not assessed any charges. The account, when used in this way, becomes equivalent to a 30-day charge account. The total amount of credit outstanding at the end of December, 1963 on the books of department stores and furniture and appliance stores was \$654,000,000.00. The equivalent figure for the end of December, 1954 was \$306,000,000.00. It is known that the growth in cyclical credit for the nine-year period has been substantial. A large part of this growth is accounted for by a switch to cyclical credit from other types of credit.

3. Question:

Would it be possible to disclose a simple annual interest rate on cyclical accounts:

- (a) If the percentage were calculated on the average balance in any given month;

Answer:

The average balance could only be determined at the conclusion of the month. An annual rate calculated on this balance would thus be of little value to a customer contemplating a new purchase. The rate quoted would also be meaningless as a prediction of the rate to be charged in the following month. To determine the average monthly balance outstanding on every one of the cyclical accounts operated by our members would be an extremely onerous

and expensive task. As the result of this operation would only provide information of extremely doubtful utility, the Council would not recommend the implementation of this proposal.

- (b) If the percentage were calculated on the mid-term or mid-month balance;

Answer:

It is assumed that it is intended that a rate calculation as well as publication of a rate would take place in relation to the mid-month balance. This would mean that the calculation date would be moved from the opening balance to the mid-month balance. In practice, no change in the present range of variables would take place. Thirty days would still elapse between the calculation periods. Under the present system, the buyer has the opportunity to restrict his charges to the minimum amount by making an instalment payment just before the closing date of his billing cycle and by buying just after the opening of a new cycle. The alternative system suggested would require the customer, in order to gain the maximum advantage, to reverse his purchasing and payment habits. He would have to pay just before the elapse of fifteen days after the closing date and buy just after the mid-term of the cycle. It is believed the suggested change would simply confuse the customer.

- (c) If the grace period (understood to be three or four days before any extra charge is made) were extended to 15 days (then the variables would be reduced to such a point that a fairly accurate rate should be possible);

Answer:

The question makes reference to a "grace period". It is believed this expression has gained currency in relation to cyclical accounts because certain retailers hold the cycle open for two or three days to make sure that payments made in any of their branches before the end of the cycle are transmitted to their head office or their accounting office. Present procedures do not confer any period of "grace" on the customer. The customer must make his payments before the billing date if he is to receive credit for them in that cycle.

It has been suggested that for the purpose of reducing the variables, payments made within 15 days of the billing date should be treated as though they had been made within the previous 30-day cycle. It would be illogical to treat payments in this way without according the same treatment to purchases. The result of doing so would be to revert to the situation described in Answer 3 (b) above. The buyer, to obtain the maximum advantage from the use of the scheme, would have to so adjust his buying and paying habits so that he bought late in the cycle and paid early.

In framing answers to the above questions, the Council has felt itself at some disadvantage because it could not give the questioners a practical demonstration of the actual operation of the suggestions. The Council wishes to take this opportunity of repeating its invitation to the technical advisers of the Committee to review the actual mechanics of Council members' operating procedures with them.

Rate Per Month Disclosure on Cyclical Accounts

It is believed that there is now general agreement that it is impossible to devise a system of disclosure which would have application to both cyclical and instalment accounts on the one hand and all other forms of credit on the other. Recognising that this might be the conclusion reached by the Committee, certain of its members expressed themselves as being dissatisfied with the

opportunities for comparisons between the cyclical and instalment accounts of different retailers which present disclosure practices afforded. The Council was asked to consider particularly closely the proposal that rates on cyclical and instalment accounts be quoted on the basis of percentages per month on outstanding balances, whether or not the rate was also quoted in a dollar figure per month.

As the Council pointed out in its appearance, some of its members already quote rates of charge on cyclical accounts on this basis. Council members who have not adopted this method of rate quotation refrained from doing so because they believed the figure was not of real interest to their customers and might confuse them when used in addition to a dollar charge, and because their scale of charges involves changing percentages as balances go up and down.

In the light of the viewpoint expressed by members of the Committee that publication of a percentage rate per month figure in respect to cyclical balances would constitute a useful addition to cost information now made available, the Council is prepared to recommend this procedure to its members.

As was mentioned at the Council's appearance before the Committee, certain difficulties arise when an attempt is made to use this basis of disclosure in respect to instalment accounts with add-on privileges. This is an area where the Council believes full explanation of existing problems, and possible means of solving them, could with advantage be discussed between the technical representatives of the Council and the technical advisers of the Committee.

The Council would be very willing to elaborate any of the points made herein.

All of which is respectfully submitted on behalf of Retail Council of Canada.

January 27, 1965, Toronto, Ontario.

A. J. McKichan,
General Manager.



Second Session—Twenty-sixth Parliament
1964-65

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 16

TUESDAY, MARCH 16, 1965

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

Retail Merchants Association of Canada Inc. Mr. Don Rolling, Assistant Manager; Mr. W. W. Boys, Second Vice-President, Dominion Association; Mr. Vincent R. Deir, Director, Ontario Association.

APPENDIX

T—Brief from the Retail Merchants Association of Canada Inc.

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll
and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett

Irvine
Lang
McGrand
Smith (*Queens-
Shelburne*)

Stambaugh
Thorvaldson
Vaillancourt—11.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserdén
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

“On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee.”

LÉON-J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

“Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative”.

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—
Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Lon-*

gueuil), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted,

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—
Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills has been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, March 16th, 1965.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw, Hollett, Smith (*Queens-Shelburne*) and Thorvaldson, and

House of Commons: Messrs. Chrétien, Hales, Macdonald, Mandziuk, Nasser-den, Otto and Scott. 12.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Macdonald, it was Resolved to print the brief submitted by the Retail Merchants Association of Canada Inc. as Appendix T to these proceedings.

The following witnesses were heard:

Retail Merchants Association of Canada Inc., Mr. Don Rolling, Assistant Manager: Mr. W. W. Boys, Second Vice-President, Dominion Association; Mr. Vincent R. Deir, Director, Ontario Association.

At 11.50 a.m. the Committee adjourned until Tuesday next, March 23rd, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE
SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, March 16, 1965.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator DAVID A. CROLL (*Co-Chairman*) in the Chair.

Co-Chairman Senator CROLL: Gentlemen, I see a quorum.

This morning we have the Retail Merchants Association of Canada Inc. Mr. W. D. Rolling, on my right, is the assistant manager. Mr. W. W. Boys is the second vice-president, Dominion Association, and Mr. Vincent R. Deir is director of the Ontario Association.

A motion was adopted that the brief prepared by the Retail Merchants Association of Canada Inc. be printed in the report of the proceedings.

(*See Appendix "T"*)

Co-Chairman Senator CROLL: I am sorry my co-chairman will not be here this morning. He has some special parliamentary duties in connection with the Labour Committee.

I have here the royal commission report on the cost of borrowing money, cost of credit and related matters in the Province of Nova Scotia. This is the report to the commission on conversion of finance and carrying charges to simple annual interest rates. It has about 500 pages. They started in May 1963 and the report was issued last week. I have read through most of it. There is a copy with the clerk, I think it is worth reading. It is an excellent report whether one agrees with it or not. The important thing is that on the basis of this report the Provincial Secretary of Nova Scotia, Honourable Gerald J. Doucet, has introduced a bill to deal with the situation on a temporary basis. I have wired for a copy of the bill and hope to have it before long.

This is part of the library record of the committee and is available if you want to look at it.

I have a letter this morning from Mr. D. D. W. Irwin who appeared before us some time ago. The Federated Council of Sales and Finance Companies have questioned one of the statements he made before the committee. However, they will come before us next week so I propose to place this letter from Mr. Irwin on the record so that it will be available to you to read before they attend. The letter is addressed to the committee, and along with it is a copy of Mr. Irwin's letter to the Federated Council of Sales and Finance Companies.

Senator SMITH (*Queens-Shelburne*): Would you put on the record who Mr. Irwin is?

Co-Chairman Senator CROLL: He is financial consultant to the Ontario Select Committee on Consumer Credit.

The correspondence is as follows:

MARCH 11, 1965.

Special Joint Committee on Consumer Credit,
The Senate of Canada,
Ottawa, Canada.

Dear Sirs:

The Federated Council of Sales Finance Companies has written to me under date March 9, 1965 questioning a statement made by myself before your committee on February 23, 1965 to the effect that I understood that there were five states of the United States which had legislation requiring disclosure of finance charges as a percentage rate.

The statement I made was based on information I had received verbally at the time of meeting with Senators Douglas and Bennet and their respective staff representatives of the "Truth in Lending" Sub-Committee of the United States Senate. I have since received a copy of the 1962 and 1963-64 record of that committee's hearings and note on page 1205 of part 2 of the 1963-64 hearings a summary record of the committee's findings on the subject matter. I enclose a photo copy of this page.

The schedule shows that five states had rate disclosure for Small Loans only, one state had such requirement for Conditional Sales, one for Industrial Loan companies and one state for Retail Instalment Sales. On pages 1223 to 1227 of the same report there is an analysis of disclosure requirements in regard to revolving credits. (No doubt you have this record and as it is rather lengthy and detailed I have not reproduced it.) My interpretation of this data is that while rate % disclosure is an alternative method of disclosure in several states it is a statutory requirement only in North Dakota.

The foregoing record was apparently correct up to April 1, 1962. I propose to write to Mr. Lindley on Senator Douglas' staff for information as to subsequent developments, if any, in this regard.

The important thing, or course, is to establish the true state, in respect to all matters bearing upon rate disclosure, and I am most anxious to avoid unsupported observations. In the quick exchange of question and answer, without documentation at hand, one may fall into the error of making generalized comments which, not being fully elaborated at the time, may lead to conclusions which are only partially valid.

This seems to have been the case on February 23, 1965. The Douglas record supports the reference to rate disclosure in five states but having now discovered that such requirement is limited to Small Loans I request that this letter be filed with your committee in amplification of the record.

There may, of course, have been additions to or deletions from the record since April 1962.

A copy of this letter is being sent to the Federated Council of Sales Companies and a copy of my letter to them is enclosed.

Yours faithfully,

WINSPEAR, HIGGINS, STEVENSON AND DOANE
Signed: "Douglas D. Irwin"

Enclosure

Copy to: Federated Council of Sales Finance Companies.

The schedule referred to in Mr. Irwin's letter is as follows:

SUMMARY OF
PROVISIONS IN STATE LOAN LAWS² FOR DISCLOSURES
SIMILAR TO DISCLOSURE REQUIREMENTS IN
"TRUTH IN LENDING BILL"

(S. 1740, April 21, 1962, Committee Print)

- I. No State law contains all the disclosure requirements of S. 1740.
- II. STATES WITH DISCLOSURE REQUIREMENTS FOR ALL LOANS AND LENDERS

New Hampshire	(statement to borrower expressed in dollars, rate of interest, or monthly rate of charges, or a combination thereof)
Vermont	(statement in dollars on loan instrument of total amount of interest and of each other charge)

- III. STATES WITH DISCLOSURE REQUIREMENTS FOR REAL PROPERTY MORTGAGE LOANS

	Applicable to:
Alabama	building and loan associations
California	1st trust—\$10,000 or less—junior lien of \$5,000 or less
Hawaii	building and loan associations
Maryland	purchase price of dwellings \$15,000 or less
Massachusetts	owner-occupied dwellings valued not over \$25,000
New Hampshire	all loans
Ohio	building and loan associations
Pennsylvania	building and loan associations
Vermont	all loans

- IV. STATES THAT REQUIRE DISCLOSURE OF BOTH "AMOUNT" AND "RATE"¹ OF FINANCE CHARGE

	Condition Sales	Industrial Loan Companies	Retail Installment	Small Loans
Colorado				X
Kansas			X	
Maryland		X		
Massachusetts	X			
Tennessee				X
Vermont				X
Wisconsin				X
Wyoming				X

None of the foregoing State laws requires the rate to be disclosed as required in S. 1740.

¹For purposes of this table rate considered required to be disclosed if statute requires that section of law prescribing maximum charge to be printed on the statement furnished to borrower. None of the laws requires the rate to be disclosed in the manner required in S. 1740. Massachusetts, Wisconsin and Wyoming require the "rate of interest" to be disclosed and Vermont requires the "agreed rate" to be shown.

²Laws surveyed are principal loan laws and do not include laws regulating loans made by pawnbrokers and fiduciaries.

The following is a copy of the letter sent by Mr. Irwin to the Federated Council of Sales Finance Companies:

March 11, 1965.

Mr. E. Michael Howarth,
Executive Vice-President,
Federated Council of Sales Finance Companies,
321 Bloor Street East,
Toronto 5, Ontario.

Dear Mr. Howarth:

In reply to your letter of March 9, 1965 I enclose a copy of a letter of even date sent to the Special Joint Committee on Consumer Credit, Ottawa which I trust is self-explanatory.

The wording of the reference to the "apparent lack of any adverse economic effects of rate disclosure" in the third paragraph of your letter also requires classification. I didn't refer to the "lack of economic effects" but to the apparent absence of serious study of the possible economic effects which is quite different. The point I was making was that while opinions have been given as to economic effects, to my perhaps limited knowledge, I am not aware that any objective study in depth has been carried out in this regard and that, in my personal view, the results of such study might be of great significance one way or the other in the matter of legislation regarding rate disclosure.

I trust that these letters will set the record straight. I will be pleased to discuss these matters further at your request.

Yours faithfully,

WINSPEAR, HIGGINS, STEVENSON AND DOANE
Signed: "Douglas D. Irwin"

I have asked the gentlemen to make what statements they desire to make, and then we shall have a question period. Proceed, Mr. Rolling.

Mr. D. W. Rolling, Assistant Manager, Retail Merchants Association of Canada, Inc.: Honourable senators, our delegation today is composed of myself; Mr. W. W. Boys, who has been in the retail major appliance business in the city of Woodstock, for 20-odd years; and Mr. Vincent R. Deir, who has been in the retail clothing and gift business for 60-odd years in the City of Gananoque, Ontario.

Mr. MACDONALD: Sixty years?

Mr. URIE: He does not look that old.

Mr. ROLLING: We of the Retail Merchants Association of Canada Incorporated are very happy to have this opportunity of appearing before you. We should like to apologize for the lateness of our brief. This was due to circumstances beyond our control. The members of our consumer committee are spread over many provinces, and the illness of one of our key members held up the finalization of our brief.

We should also like to convey our apologies to your secretary, Mr. Dale M. Jarvis, because of our tardiness in getting copies of the brief to him when they had been promised for the week of March 6, 1965.

We will, to the best of our ability, answer any questions that the members of the committee may wish to ask us, Mr. Chairman. That is our introduction, gentlemen, and we are prepared for any questions you may ask on the brief.

Co-Chairman Senator CROLL: Does Mr. Boys wish to say anything?

Mr. Boys: No, sir, not at this time.

Co-Chairman Senator CROLL: Mr. Deir?

Mr. DEIR: No, sir.

Co-Chairman Senator CROLL: Would you like to start, Mr. Urie?

Mr. URIE: Mr. Rolling, at page 5 of your brief at the bottom of the page you make reference to the report of the Royal Commission on Banking and Finance, and point out that it states that the majority of Canadians have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living. You state that you are in complete agreement with this observation. What are your observations with respect to the same report, and in particular to the statement of the Commission at pages 382 and 383 where they say that all credit charges should be expressed as an effective rate of percentage charge per year? What is your observation with respect to that recommendation, as opposed to the observation which was made by the Commission and which you quote in your brief?

Mr. ROLLING: I do not feel in a position, Mr. Urie, to express an opinion on that. I had not expected you to have the volume with you. We have one at the office, of course, because we needed it to make up our presentation. I would like to say to the committee that we should like to take this question under advisement and answer it in writing, unless you feel that an observation of myself or one of the delegates would be satisfactory.

Mr. URIE: Yes, that would be satisfactory, Mr. Rolling. I think, in particular, you have stated in your brief at various places that it is your submission that the most satisfactory method of showing finance charges is by expressing them as dollar amounts, which would seem to imply that you are opposed to disclosure in terms of simple annual interest.

Mr. ROLLING: This would not apply to instalment sales. I think our committee feels that disclosure of some forms of interest that are easily manageable, and which are, let us say, commonly advertised through some of the banks, should be made. I think with respect to that kind of thing it may be eminently satisfactory. Perhaps Mr. Boys might like to answer that question.

Mr. W. W. Boys, Second Vice-President, Dominion Association, Retail Merchants Association of Canada, Inc.: Speaking for my own business, we now carry practically all of our own accounts. Certainly, if anybody asked me the interest rate I would not hide it at all. I will mention that it is 9 per cent per annum. But, on the other hand, I do not make an issue of it. We certainly show the dollar carrying charge on every sale, and to me this is the most simple way of having people understand what they are going to pay. I presume that this committee is perhaps asking whether or not we should show the percentage rate of interest as well as the dollar figure. I have no objection in my business, but I know that there are lots of businesses which offer revolving credit, and so on, and in those cases it would be very, very cumbersome to show the rate of interest, as our brief says.

Mr. URIE: Am I to take it from that answer, Mr. Boys, that your organization would not oppose any regulation that may be passed by the Parliament of Canada with respect to disclosure of finance charges as a per cent per annum in respect of credit advanced, with the exception of revolving or cyclical credit? Do you go that far?

Mr. Boys: I would like to have you clarify, if you will, what you mean by "our organization".

Mr. URIE: The Retail Merchants Association of Canada.

Mr. Boys: I did not know whether you meant that. No, I should not say that. We do not wish to make fish of one and fowl of the other. I would say it should be general one way or the other.

Mr. URIE: In other words, if an effective rate of interest per annum is required for disclosure of finance charges then it should be applicable to all forms of credit, including revolving credit, if possible.

Mr. BOYS: I would personally say so. Am I right Mr. Rolling?

Mr. ROLLING: We have that feeling. We have discussed this in our committee, and certainly we feel that if any such regulation did not apply to one form of credit and did apply to another it might be discriminatory against some sections of the retail trade. So far as the first observation is concerned, I still feel that we should have an opportunity of consulting our committee and replying in writing to that first question with respect to pages 382 and 383.

Mr. URIE: That is, pages 382 and 383 of the report of the Royal Commission?

Mr. ROLLING: Yes.

Co-Chairman Senator CROLL: There is no objection at all to that. Perhaps you could send in your answer rather quickly because we would want to get it in the printed proceedings as near as possible to the proceedings of today.

Mr. URIE: At page 7 of your brief in the first paragraph you make the statement:

In many instances, the additional declaration of an effective rate of simple interest would serve only to confuse the customer and, in some cases, such a declaration would be entirely beyond the comprehension of the purchaser.

Why do you make this statement, sir?

Mr. ROLLING: Well, as a general rule, Mr. Urie, we feel in the retail field that when percentages are mentioned to a consumer it does create confusion. This does not mean that our population who deal at the credit level is illiterate and not able to do some calculations; but in their normal transactions that they do with a large portion, say, of the spendable dollar being used by the housewife, she certainly does not apply percentages in the use of her budget money at home, but she can quickly associate dollars and cents to her budget.

Mr. URIE: You would agree that when a person borrows money on the security of mortgage the charges payable for the use of that money are expressed as a percentage?

Mr. ROLLING: Yes.

Mr. URIE: And the charge for money borrowed from a bank is expressed as a percentage, for small loans, and so on. On page ten of your brief you make this statement:

Declaration of an effective rate of simple interest would not necessarily be helpful to the consumer in comparing charges unless application is made to identical goods, at the same price, the same down payment and the same length of contract which is often predetermined by the size of the monthly payments.

Is it not a fact that the declaration made in that paragraph is necessarily much more applicable to the expression of charges to dollar amount than it is to the expression of percentage? The only meaning to be derived from the expression of charge by way of dollars is that all those matters which you have set out in this paragraph are in fact present in the transaction, whereas if the charge is expressed as a rate of interest, all those matters do not necessarily have to be included to make a comparable analysis.

Mr. ROLLING: We are talking here of a consumer making a major purchase and shopping for credit. We feel that if the consumer were going to shop for credit, she would think of comparing the same price factor, the same length

of time on the payment, the same price for the original purchase—and this of course would only vary with the down payment. This is the only true comparison that you can make in the form of credit shopping.

Mr. URIE: Is it not a fact that, if the same article were being purchased, let us say a refrigerator, the dollar amount can be varied very simply by a variation in the cash purchase price, by a variation between the terms, let us say between 13 months and 19 months, or other factors of which we may have no knowledge; but the rate of charge expressed as a percentage, need not be varied—the terms of per cent in terms of simple annual interest, need not be varied by those factors?

Mr. ROLLING: This is entirely possible that the per cent need not be varied in that particular case. But we have a situation where you have state a particular type of appliance being purchased. Do the consumers—and this has not been our experience—go down to the question of the percentage annual rate, or the down payment, or the total price being asked, or the length of time to complete the transaction? Our feeling generally is that they do not.

Mr. URIE: They do not ask for that, but it may well be that they are entitled to know what the charge for the credit is?

Mr. ROLLING: I certainly think all of us would agree the purchasers are entitled to know exactly what they are doing, in its entirety.

Mr. URIE: Do you not think that these charges, expressed as a percentage in terms of simple annual interest, provide a more effective way for them to compare, than by making the comparison by way of dollars where it is possible to have so many variables introduced?

Mr. Vincent R. Deir, Director of the Ontario Association: Mr. Rolling was very kind when he said that I am from the City of Gananoque. I really am a small town merchant. I made nothing but observations so far as credit is concerned. I think more and more Canadian retailers are looking for gimmicks by which to sell. There is great confusion amongst the public about interest charges. Those charges may be based on six months, 18 months or three years—which they never say. If an article is priced at \$100, I think it should be stated what it will cost to pay for that, at the end of one year, two years or more. The gimmick selling is directed to what it will cost to get a refrigerator into the house, as the brief says, in terms of dollars a week.

Mr. URIE: If the interest rate were given, they could find out if they could buy the same refrigerator for a lower charge somewhere else, which they cannot determine where it is given in dollar amounts.

Mr. DEIR: I think it is wide open for confusion. We do credit, but do not charge interest. If you came to me for a suit of clothes, I would give it to you.

Mr. URIE: Thank you very much.

Mr. DEIR: I would expect you to pay for it in a reasonable time. However, it is a different thing in the case of large items. You must give credit and must charge.

Mr. URIE: You have made a point which is quite valid, that there would have to be regulations requiring disclosure of term as well as rate of interest, so that if the retailer or the sales agency were required to disclose the term upon which the interest is calculated, as well as the interest itself or the rate of charge expressed as a percentage, then your objection would disappear. This would not necessarily mean that you could not disclose the charge in terms of dollars also. In other words, if you had both methods of disclosure, would that not be more satisfactory from a customer's point of view?

Mr. DEIR: I certainly believe disclosure is an all important factor. That it what we do not have at the present time in Canada. Whether the interest percentage is the right way or not I do not know. In hard dollars and cents that refrigerator is going to cost \$269, though it has a \$200 price tag. If that were stated plainly, the purchaser would know exactly. There always is a suspicion of interest rates. At the moment, even some of the smaller finance companies are trying to get in on this credit bandwagon. They are trying to get people to consolidate their accounts, to borrow the money from them and pay cash. Many of those dealers in Canada now are refusing to take cash for goods contracted for on credit, because the credit is a good thing. They are in the finance business rather than in ordinary business.

Senator SMITH (*Queens-Shelburne*): It is interesting to hear that the small merchant is not so interested in the kind of business that the large man is interested in. It is very interesting to find this type of man here, the small type of merchant. There was reference in the brief, page 6, to the fact that the Retail Merchants Association is bound to resolutions. They are bound to oppose any regulation which would require disclosure in the form of an effective rate of simple interest. In the light of some of the evidence which has been placed on our record up to this time—which you may or may not have had an opportunity to examine—do you think that there is some basis for a possible change in the views on the part of the association with regard to difficulties which seem to be present when you had these resolutions before the Retail Merchants Association?

Mr. ROLLING: Over a period of some years, with some very slight modification, our resolutions have been passed at both provincial and dominion board levels. That main portion of the resolution has remained and we feel—this may answer your question—that there always will be some very small measure of unscrupulous retailers who would and could take advantage in the use of simple interest. Our experience at various levels of retailer who handles credit have shown us that the most easily handled by the consumer, and also by the retailer, and his salesmen, is the dollars and cents, to Mrs. Housewife, the consumer. Does that answer your question, sir?

Senator SMITH (*Queens-Shelburne*): Yes, in part.

Mr. ROLLING: It has not changed really from the original concept of the main body of our resolution. We feel that it could become unwieldy, and it might even become more confusing if we must toy with dollars and cents as well as with simple interest.

Senator SMITH (*Queens-Shelburne*): We have had some evidence, Mr. Chairman, which has led us to believe, with regard to credit transactions, that it is possible to feed information regarding various kinds of transactions very readily printed by the thousands, and tabled, that could be used by both the large and small operators in business. If such a thing were so, what would be the objection of the small retailer to getting a copy of that kind of information, and if regulations required him to do so, to provide the customers with both a dollar interest charge as well as the percentage charge?

Mr. DEIR: I know that we would welcome that, as a small town merchant, in that we know everyone we deal with. For instance, the professional man comes in and does not even say, "Charge it," he assumes you are going to, anyway; whereas Joe Doe, the truck driver, comes in, and not being a professional man he is at a different level. If we had some sort of standardization we could apply to everyone regardless of level, it might be helpful. The point is that if we suddenly said to the professional man, "I am afraid we have to charge you a dollar a month," he might not take to the idea very well.

Senator SMITH (*Queens-Shelburne*): I do not think any regulation could be devised that would compel some merchant to make a charge for useful credit

he might give to a professional man, where he is not now charging it. I deal with a small town merchant, and on the first day of the month a bill comes in, and there is no mention of a credit charge. I get my bill, say at the beginning of January, and on February 1st, or as soon after as possible, I pay my bill. Don't you think most small town merchants operate in that way?

Mr. DEIR: Our type of business has been criticised that we do not compare fairly with the man who has cash, but we go along with it until a regulation is enforced on everybody.

Senator SMITH (*Queens-Shelburne*): Of course, I realize that some customers may ask you for a discount. That is bargaining, and there are people who like to bargain and to squeeze a little discount from the merchant.

Mr. ROLLING: Mr. Chairman, may I pursue that a little further? We did have experience in Alberta with regard to a charting operation that they had brought down in some form. Last summer I had the pleasure of seeing it. Since that time, the publication *Home Goods Retailing*, for January 25, 1965—and also referred to by the *Financial Post*—published an article entitled, "Give Up on Interest Law in Alberta." I will read an excerpt:

Trouble also has been encountered in devising a way of translating the costs of various types of department store accounts into an interest rate.

"Those revolving-credit accounts are pure murder," said a treasury official.

Opponents claim the bill will upset commercial business by hampering credit buying and creating a "bookkeeping nightmare."

I bring that to your attention to try to reply to the question of availability of charts.

Senator GERSHAW: On page 9 of the submission it is stated that:

"... considerable publicity was given to the fact that services including credit would be eliminated in favour of lower prices. These discounters soon learned that they could not generate the volume necessary to a successful retail operation without the extension of consumer credit."

Does that mean that all this business of cash and carry is in the best interests of the volume of business and against the interests of the retailer?

Mr. ROLLING: It is not entirely meant that. In the discounting operations of four to five years ago some very leading statements were made by those who sponsored such operations, and at that particular time in front of consumer groups, and over the radio and television, statements were made that we were able to give you lower prices, because we do not have the embellishments available to normal business, such as delivery, facilities of credit, charge-a-plate cards, and that sort of thing. Also it is self-serve and we have less labour in our store. By the same token, within weeks of the statements being made—and these are large organizations—they find they have to furnish delivery, have to have more staff, furnish more credit facilities, just like many more departmental stores, all of which has been adding up, in some cases, to some tremendous loss positions for the discount operations. One organization—I do not wish to mention any one in particular, has had its third financial injection in the past year and a half to five years in order to remain in business, whereas their previous concept was low prices, self-serve, and so on, and all this has resulted in stiff financial losses, which have had to be taken by like organizations. Does that answer your question?

Senator GERSHAW: Yes.

Senator THORVALDSON: An answer to a question which has already been supplemented has answered the question I desired to ask, Mr. Chairman.

Co-Chairman Senator CROLL: Mr. Macdonald?

Mr. MACDONALD: Mr. Rolling, I wonder if you could briefly outline the relationship between your association and the Retail Council of Canada?

Mr. ROLLING: I think I could. We work quite closely with the Retail Council of Canada. They represent a small membership of, I believe, 54 members, composed of major chains, such as large departmental stores, large supermarket groups, from coast to coast in Canada. They certainly have a very essential place in trade representation. Although we do have some chain groups, they are much smaller and in the main represent the independent retailer, large, medium and small.

Mr. MACDONALD: I realize it would be very difficult for you to generalize about what a lot of independent retailers do, but I wanted to refer to the normal method of carrying on business that is referred to on page 8 of your submission in the third paragraph, which says:

He must continue to offer 30-day charge accounts (usually interest free). He must also offer facilities for short-term and long-term deferred payment plans as well as a revolving type of account.

I take it that most of your members employ a 30-day charge account?

Mr. ROLLING: The vast majority.

Mr. MACDONALD: And that may be a fancy name for the kind of arrangement that Mr. Deir referred to, where the lawyer goes in and expects to get a little time. Is that the kind of thing you have in mind?

Mr. ROLLING: It could be so.

Senator THORVALDSON: That was really the question, Mr. Chairman, I wanted to ask Mr. Deir, whether I would be right in assuming by and large you must deal on a 30 or 60 day basis. Do you or do you not?

Mr. DEIR: I am afraid we have a little more of a casual system in our establishment, but we would like to assume we would be paid in 30 days. At least, we bill on a 30 day basis. They don't always pay on time.

Mr. MACDONALD: Do you know of any circumstance under which any of your members would stipulate an interest charge on that type of 30 day, shall we say, extension of credit?

Mr. ROLLING: Yes, many would where they are financing through a finance company, a major finance company, which is really pretty well stated on the charts that are available for him. In some other cases, of course, and Mr. Boys could be a good example—he would carry a large proportion of his credit himself, as well as having some time payment charges with some major finance companies. Would you like to clarify that, Mr. Boys?

Mr. Boys: Well, I think it is extremely important we make sure of the terms at the time of the sale. I have had many say, "Well, 90 days is cash." Then we go into another sales pitch. We feel you have made your sale, but we know as soon as they mention terms we have another sale to make. This second sale certainly should not be made any harder to conclude than absolutely necessary.

That is one point, I believe, in bringing in regulations as to percentage interest charges. To me, if the consumer cannot—and, certainly, 99 per cent of them or more can understand a dollar and cent charge on interest or service charge, if you wish to call it that, just as well as they can understand the price of the article they are buying—I do not know why, but it is perhaps the dealer's own fault in the past.

It seems to me practically all consumers pick on the appliance trade and the automobile trade to, let us say, beat us down to the last dollar. They do not in the clothing business, I do not believe; they do not in the restaurant

business or anything like that. However, in my business I do make sure of the terms of the sale. In the case of a lawyer or a doctor, if they do not mention terms, I sometimes say, "What bank would you like to give me a cheque on, doctor?" in a nice way, and he does not seem to mind that. But if he does not say anything, and I do not say anything, I just naturally give him a copy of the bill of sale at the time.

Mr. MACDONALD: There is no discussion either about whether or not he is going to pay any interest?

Mr. BOYS: If he does not pay in 30 days I ask him or his wife how the appliance is working, and so on, and is he happy with it. I say, "Do you wish some time on this? I can give it to you on time, if you wish."

Mr. MACDONALD: Under those circumstances, either if he says to you at the time of making the sale, "That is the appliance I want, and it is going to cost me \$100, and I would like a little time on it" or after 30 days you are talking to his wife, how do you indicate it is going to cost a little more money?

Mr. BOYS: I ask him how much time he wishes.

Mr. MACDONALD: And then?

Mr. BOYS: If he says, "Three months," and he has \$200 balance, to make it easy, I say, "I will be glad to carry that for you at a dollar a month, but if you pay it out in two months I will give you a dollar off, or if you pay it out in one month I will give you \$2 off." I get away from this 30-day free of charge.

To me, once a consumer gets the use of the goods, they should give up the use of the money. They should not have both at one time, or expect to have the use of both at one time. Whether or not they have the money, in theory they should not expect to have the use of both at one time, even for 30 days.

Mr. MACDONALD: When you are extending credit in this way beyond the 30-day period, for ease of calculation you take it in a round dollars figure—you say a dollar a month, or something like that, depending how much is outstanding?

Mr. BOYS: Yes.

Mr. MACDONALD: Is that fairly general practice among your membership?

Mr. ROLLING: I would say so.

Mr. MACDONALD: You refer in the passage I read to "short term deferred accounts." Where would the dividing line be between that type of account we have been discussing and the short-term deferred account?

Mr. ROLLING: Ninety days would be regarded as a short-term.

Mr. MACDONALD: And the financing of that is usually stated by amounts of a dollar a month, or something like that, in round terms. What would be a long-term deferred account in your parlance?

Mr. BOYS: We stick to 24 months. Maybe once a year, if we know him real well, in certain circumstances we go over that to 30 months, but not more than once or twice a year.

Mr. MACDONALD: The maximum in long-term would be 30 months and anything over six months, would that be regarded as it?

Mr. ROLLING: I think that would be a fair measure.

Mr. MACDONALD: Do you take any evidence of indebtedness, such as promissory note or any other document like that, for the long-term deferred account?

Mr. ROLLING: That is not the normal practice. A credit application form might be used in which certain references might be stated—certainly things such as if you are a home owner and, "Do you have any other outstanding debts?"

As a general practice, with some of the medium sized merchants, they would check one of these references, but as a general rule, if a person is quite

willing to put down the necessary information, I feel quite a number of merchants would not check any of the references.

Mr. MACDONALD: You do not have them sign a promissory note?

Mr. ROLLING: Not in the normal transaction in the store. If they are entering into an agreement of some kind they would have a promissory note embodied in that and also a scale of payments might be used by a finance company, but that is entirely different.

Mr. MACDONALD: This is a "ball park" figure, but to what extent do any of your members discount accounts or sell them on a wholesale basis, where they have long-term accounts?

Mr. ROLLING: This would be very difficult to answer in a percentage.

Mr. MACDONALD: Is it more common in the appliance industry than other industries?

Mr. ROLLING: I do not think you could regard it as, in the phraseology of "common". It is governed largely by the availability of funds at the command of the retailer. He is not in the money loaning or money lending business, and he has to find sources of credit that he can convey to the consumer where he can get it the best to serve the most. The difficulty he would have is if he has gone a little overboard than he might have to try to discount this paper, as we call it, in the retail trade.

Mr. MACDONALD: To what extent has the American practice of factoring become used in your business?

Mr. ROLLING: It would be difficult to answer although there seems to have been a little more activity in the past few years in that field here in Canada. There have been a few new organizations open up that I have noticed in various provinces, but we have a very small portion, I am sure, of what is done in the United States in that field.

Co-Chairman Senator CROLL: Tell the committee what the practice of factoring is, how it is carried on?

Mr. ROLLING: I think the general description is to not only buy the paper but perhaps give some advances with regard to inventory and those kind of things for a percentage of the return on the part of the lender.

Mr. MACDONALD: In the woollen industry in the United States the factor also assumes a credit evaluation role. Do Canadian factors engage in the credit evaluation role?

Mr. ROLLING: I cannot answer that.

Mr. DEIR: I think it is almost unknown in Canada. We just noticed the other day that in our business of 260 firms we deal with, only three of them did any factoring, and they are all American companies located in Canada.

Mr. MACDONALD: But would it be a fair generalization that where factoring is used they have a set documentation for a retailer in every transaction? Essentially, he does not have the virtue of informality Mr. Deir has, but has to take the factors into the documentation?

Mr. ROLLING: I think that would be the standard practice. Certainly it would have to be legally done, and they would have a pretty well standard form.

Mr. MACDONALD: On page 6 you make reference to the fact, If I might quote it again:

Much has been said about the development of formulae for the calculation of simple interest but we, in R.M.A., have yet to see a formula, in Canada or the U.S.A., that will properly lend itself to the

easy computation of an effective rate of interest as it pertains to the multitudinous and variable credit transactions found in the average retail store.

That is quite a sentence.

We have had evidence from Mr. Irwin you might be familiar with that there is an obvious mathematical and administrative difficulty in dealing with revolving and cyclical accounts.

Eliminating them from this particular consideration, would you say the same mathematical impossibility exists with respect to your other accounts, for example, the type Mr. Boys described, the short-term deferred accounts?

Mr. ROLLING: There would surely be limitations on it.

Mr. MACDONALD: Have you considered the tables Mr. Irwin has had prepared for use in retail stores with respect to time?

Mr. ROLLING: I have not had the pleasure of seeing those, sir.

Mr. BOYS: If a table were to come out I presume, would it be the amount of interest and the rate imposed by the Government body?

Mr. MACDONALD: The suggestion that Mr. Irwin made, I think, was that under the legislation it would be stipulated that a certain table should be available in all outlets, and that the interest on a time payment should be indicated to the customer, not only stating the dollars and cents, but, with the application of the table, what this would amount to in simple interest.

Co-Chairman Senator CROLL: I understood Mr. Boys' question is whether there would be a limitation on the amount of interest.

Mr. BOYS: Yes.

Mr. MACDONALD: No, this would be pure disclosure. There is no maximum stated.

Mr. URIE: Mr. Irwin points out that in most credit transactions where the price to be paid for the article is to be paid over a period of time you have at the present time charge sheets, or whatever they may be termed, on which the exact amount of dollar repayment is disclosed for the term of the credit. Now he points out that it would be quite simple to convert that dollar amount into a percentage rate, and he would add a column to the table showing that percentage in addition to the dollar amount. In his brief he uses an example which is already on record. He uses it with regard to a finance company, but it is also applicable in any transaction.

The CHAIRMAN: You will find that in the record, No. 14, Tuesday, February 23.

Mr. BOYS: Is this the interest column here?

Mr. URIE: Yes.

Mr. BOYS: That is 24 per cent per annum.

Mr. URIE: Yes, in that particular chart. This is only an example. It increases with the larger dollar amount.

Mr. BOYS: That is the problem. You have a chart showing 24 per cent, scaled down to 16 per cent. If you show a customer that, you have lost your sale immediately, as far as I am concerned, because most people think 6 per cent is bank interest, and they feel they can go to the bank to get money to buy this item or whatever it is and you pay 6 per cent. They don't do that. They have a service charge on top of that and so on. I invite people, if they have any objection to my charges, to go to their credit union or to the bank and do better, and I will give them the article immediately and wait for the money. I do not think there is anything wrong with that. I think our problem here is that the retailer today has a lot of office work to do for our governments, and we are objecting to doing any more. We object to any more

legislation that is going to put us and our help in a position where we have to do more work than we already have. I believe that is the crux of the whole thing. We do not object so much to Mrs. Jones knowing she is paying 9 per cent on the article, or what per cent she is paying, as to the extra work that it will entail.

Mr. MACDONALD: A final question. As I understand it Mr. Deir made reference to the fact that there has been some misleading advertising which seems to suggest no down payment and which would convey the impression that buying on credit would not cost anything extra, and I think he suggested that it should be mandatory that people advertising on such lines should be required by law to state what the ultimate aggregate payment would be.

Mr. DEIR: Yes.

Mr. MACDONALD: What you mean is that there should be a change in the law to require that disclosure?

Mr. DEIR: Yes.

Mr. MACDONALD: You would like to see a statement of the total cost.

Mr. ROLLING: I would like to deal further with that. People are entitled to know that the borrowing of money costs something. And clarification of that situation is always desirable. This was a suggestion of Mr. Irwin of the Ontario Select Committee. However, if the use of charts became general, these would have to be procured by the retailer and would add further cost to his business. This might ultimately reflect in the retail selling price.

Mr. URIE: But you have charts already disclosing the dollar amounts.

Mr. BOYS: These are usually supplied by the finance companies.

Mr. URIE: All it would mean would be the addition of another column to the dollar disclosure which would be used to show the percentage disclosure. Mr. Irwin says it is as simple as that.

Mr. ROLLING: Mr. Irwin didn't say that if the retailer himself did not have charts, and had to supply them, then this would add to the costs.

Mr. URIE: He did not say that, but I think it is self-evident.

Co-Chairman Senator CROLL: There is a firm in that business here in Ottawa and you can get them for a quarter or 50 cents. You can get all the charts you want. They may or may not fully suit your purpose, but they are available here in Ottawa.

Mr. OTTO: I wonder if the Association has compiled any figures on the volume of credit sales by smaller retailers and assigned to C.A.C., or I.A.C., and so on?

Mr. ROLLING: Mr. Otto, we have no such figures, but I believe they are available through D.B.S. There are some other figures available through the *Financial Post* as to the percentage of credit extended by the major finance companies.

Mr. OTTO: Are there any figures as to the volume a retailer has to handle before he can handle his own credit terms, or can a retailer handle his own credit terms regardless of the size and volume of business? Have you ever looked into that?

Mr. BOYS: Speaking from our own experience, that depends on his bank account entirely, and whether or not he can keep up the accounts payable to his suppliers and keep them in good shape. If his inventory is built up pretty well, and if he has a bank account, a current account on which he gets no interest, well then, if he is smart, he will start to work on his own finance charges. By looking after his own accounts he can make some extra money, as he should, on this extra service of financing.

Mr. OTTO: By and large, since a retailer does not really know what his financial resources are going to be and how generous his banker is going to be, does he not sell or make out a bill of sale on forms usually acceptable to the larger companies, like I.A.C., or other finance companies? In other words, the conditions as to the credit he gives and the condition under which he sells, are they not prejudged by the companies who might buy his accounts, or does he have a choice to make his own terms and conditions and interest payment rates with his customer?

Mr. BOYS: Yes, he has the choice of rates which he charges his customers. In my case I charge slightly under the regular finance rates of a large finance company, and I have my own contracts that I use if I do not know the customer very well. If they have dealt with me before I usually just pull out their paid-out card and take a look at that, and have them sign the invoice, and the terms are on the invoice and also the dollar amount.

Mr. OTTO: You handle your own accounts. I am speaking of the small retailer who knows he cannot handle his own accounts.

Mr. BOYS: Well, he hooks up with a finance company and uses their charts and their chattel mortgages.

Mr. OTTO: I have just one more question for you, sir. You mentioned that a consumer or a purchaser when buying goods still has the goods and also the use of his own money, and you say that that is not fair.

Mr. BOYS: It is not fair to the cash customer.

Mr. OTTO: It is not fair to the cash customer? You compare it, therefore, to the case of yourself where you buy goods from a wholesaler or a supplier and you have to pay cash or, if you have credit, you have to pay interest.

Mr. BOYS: Yes.

Mr. OTTO: However, do you not think there is a difference since your wholesaler does not come to you and induce you to buy his goods, whereas to a great extent retailers are in the habit of inducing customers to buy their goods whether or not the customers can afford them; is not that so?

Mr. BOYS: Oh, no. A retailer would be very much out of place to try and sell something to someone who cannot afford it. In the first place, if he carries his own accounts he may have to repossess used goods, if he can find them, and in the second place he usually endorses the note of the finance company and in that case he gets the goods back on himself.

Mr. OTTO: Are you saying then that most retailers when they say nothing down or \$5 down on an article costing \$200 they examine the financial situation of each customer and to some may say: "No, you cannot buy that because you cannot afford it"?

Mr. BOYS: If he is a small businessman he usually checks the credit before the goods are delivered.

Mr. OTTO: Do you not think that some retailers say: "I don't care whether a man can afford it or not. I can go to court and collect the money"?

Mr. BOYS: That is the wrong way of doing business, in my estimation. Such a man is not going to stay in business very long.

Mr. OTTO: I am not saying that you do it in that way, but I am asking if this is not the practice today of a great number of retailers?

Mr. BOYS: It can only be the practice where there is a non-recourse sale. Certain finance companies today will take non-recourse paper so therefore the merchandiser, of course, if he can get that contract from that finance company is in the clear. But their rates are certainly higher to cover their more than normal losses and, therefore, they are very, very particular about what sales they take.

Mr. OTTO: Mr. Deir, you mentioned something that I have heard from time to time, and that is that more and more purchasers or consumers are not concerned any longer about finance charges nor even about the amount of liabilities that they acquire; all that they are concerned about is the amount of their disposable income and how much they have to pay out. Therefore, there is a presumption today that more and more of the purchasers or consumers are not concerned about anything except whether they have enough money coming in weekly to pay out weekly, and it does not matter to them whether they owe \$10,000 or \$20,000.

Mr. DEIR: I think most consumers work on a weekly basis.

Mr. OTTO: I beg your pardon?

Mr. DEIR: I think most consumers work on a week to week budget. They know what it costs them to enjoy the pleasures of life, and if they have another \$2 a week to spend then they look around to see where to spend it.

Mr. OTTO: Do you think that this is a growing thing?

Mr. DEIR: Yes, I do. I blame it on a lot of gimmick advertising.

Co-Chairman Senator CROLL: But the gimmick advertising, for instance, which you do not indulge in, has not really affected you, when we commenced this morning it was said that your firm has been in business for 60 years in Gananoque. That is not a bad record, you know. Gananoque is a small, solid city, but you have been able to stand up to the competition.

Mr. ROLLING: Could I clarify something for Mr. Otto?

Co-Chairman Senator CROLL: Yes.

Mr. ROLLING: With regard to the last point you made, Mr. Otto, I think we have seen a great deal of sophistication taking place, over the last two or three years, on the part of the purchasing public, in that they are more prone to shop a little more carefully than they did perhaps in the short supply years immediately following World War II and, let us say, coming up to the first onslaught of easy credit. But, as a general rule, we have some things going on in our high schools which teach the young people the relationship of budgeting in the family and how to purchase the necessities of life, and also some of the luxuries when they can be afforded. I think that this trend will increase in the future. I am sure people read reports of the testimony that is given before the various select committees that are working in practically every province of Canada, and also the newspaper headlines—even though they may be written by an editor and do not really relate to the body of the submissions made. All of this makes people reasonably cautious. The very small percentage that was referred to by Mr. Deir who say: "We have an extra \$2 a week so let us spend it on something", is a very small percentage of our population.

Mr. OTTO: Do you agree with that, Mr. Deir?

Mr. HALES: I would like to direct my question to Mr. Boys, and I ask it for purposes of clarification. I wonder if we could take a concrete example such as where you, the seller, sell \$100-worth of merchandise. How does the carrying charge appear on the invoice assuming that you discount your paper? How much are you charged by the finance company for this?

Mr. BOYS: We are not charged at all for that.

Mr. HALES: First of all, how does it appear on the invoice? Is the article named and does the charge of \$1 then appear?

Mr. BOYS: Yes, it shows the finance charge for so many months.

Mr. HALES: And this is written right on the invoice, "Finance charge, \$1"?

Mr. BOYS: Yes.

Mr. HALES: Then, suppose in this case that the customer pays over a three months period; would it then appear as \$3, or \$1 per month?

Mr. BOYS: Yes.

Mr. HALES: So the article then costs the purchaser \$103?

Mr. BOYS: Yes.

Mr. HALES: You say that you discount that with the finance company. How much would they charge you for that?

Mr. BOYS: They would not charge me anything for turning it over to them. I would get 100 per cent of the unpaid balance.

Mr. MACDONALD: That is really not a discount, then.

Mr. BOYS: No.

Mr. HALES: What do you pay them for the service of discounting this paper?

Mr. BOYS: Nothing. They get the carrying charges, but they take 5 per cent of that to build up into a fund—

Mr. HALES: Who gets the \$3?

Mr. BOYS: The finance company, if I turn it over to a finance company.

Mr. MACDONALD: Do they have a contingency reserve?

Mr. BOYS: Yes, they build up a contingency reserve with 5 per cent or 10 per cent of the carrying charge. That is in case anything happens to the dealer, or if there is any repossession. If that happens they will allow us, rather than having to pay them back, say, 100 per cent of the balance owing on the refrigerator that I have to take back, and they will allow me, if the balance is large enough, to take it out of the reserve and clear out the account in that way.

Mr. MACDONALD: Who pays the contributions to the contingency reserve fund?

Mr. BOYS: It is part of the finance charge.

Mr. MACDONALD: So if you sell an article costing \$100 you charge \$100 plus an amount for interest plus an amount representing the contribution to the contingency reserve fund, and all of this comes directly from the purchaser?

Mr. BOYS: They get it directly from the purchaser, but it is not shown separately over and above the regular finance charge. It is embodied in it.

Mr. URIE: That is a percentage of the finance charge, and not a percentage of the purchase price of the article?

Mr. BOYS: It is a percentage of the finance charge, yes.

Mr. HALES: What would you give the finance company? Would you give them a promissory note, or would you take three post-dated cheques from the customer, or what would you take?

Mr. BOYS: We give them a promissory note endorsed by myself on the back, meaning that I shall pay if the customer does not.

Mr. HALES: And they in turn give you \$100 to pay for your refrigerator?

Mr. BOYS: That is true.

Mr. HALES: And they charge you nothing for that service?

Mr. BOYS: That is true. They get all the finance charges.

Mr. HALES: The \$1 per month would be equivalent to 12 per cent on \$100.

Mr. BOYS: This \$1 per month is on our own accounts. I do not turn anything over to them that is for three months. I carry that myself. However, their minimum charge would be that for putting it through. Their minimum charge would be \$7.50.

Mr. HALES: On this sale of \$100?

Mr. BOYS: Yes. I believe their minimum charge would be \$7.50 or \$9.

Mr. MACDONALD: May I ask a supplementary question in this regard? With respect to those promissory notes I would point out that there is actually a bill before this committee that would provide that on that type of promissory note there should appear the legend: "Given in a retail credit instalment transaction", so that the finance company could then be faced by the purchaser with any difficulties he might have against you for breach of warranty, or anything like that. What effect do you think this would have on the discounting practices of finance companies? Have you ever considered that at all?

Mr. Boys: I did not follow you completely.

Co-Chairman Senator CROLL: Put it in your own words, Mr. Macdonald.

Mr. MACDONALD: It has been suggested, in one of the bills before the house, that where you have a promissory note such as is described, it should have on the bottom "Given in a retail credit instalment transaction." The bill does not say this, but I think this is the conclusion of law: if it says that, it means that the finance company in its dealing with the purchaser, could be faced with the same kind of argument that you could, as the initial seller of the goods, on the basis of breach of warranty or counterclaim. If the finance company were faced with the same problems that you would be faced with, what do you think the effect of this would be on the ability to discount? Do you think this would be a deterrent on the finance companies to go into this kind of business?

Mr. Boys: I do not think so. No finance company is set up to render service and I do not see the advantage of getting finance companies and customers into any argument over warranties.

Mr. MACDONALD: Suppose the appliance does not work and the customer has the finance company coming after him for the balance of the price. The customer says "You are trying to recover for a machine that does not work." The finance company says "You go after the retailer." The customer replies "The retailer is now out of business."

Mr. HALES: The retailer may also say "I am through with the deal, I gave it to the finance company and I wash my hands of it." This is often the case with a used car dealer.

Mr. Boys: You are talking of the non recourse dealer, where that dealer has not stayed in business. I do not believe you should get the customer into any argument with the finance company over service.

Co-Chairman Senator CROLL: He said "warranty", not service.

Mr. Boys: That is the same thing.

Co-Chairman Senator CROLL: Is it?

Mr. MACDONALD: It is, to this extent, that if the thing does not work, the customer is faced with the prospect of getting it repaired by the seller, or suing on warranty. If there is no one left to sue on warranty, and if the finance company is still trying to collect the debt, that seems an inequitable situation, to have to pay for an appliance which is no good.

Senator THORVALDSON: Does this come into the question before us?

Co-Chairman Senator CROLL: One of the bills which was referred to us by the House of Commons dealt with this, so he is right within the context of the reference.

Senator THORVALDSON: I just do not agree with you on it. Here is a practical problem of retailing of some merchandise, which has nothing to do with the real question of interest rates. The question at issue is simply whether the discount office was crazy enough to deal with a dealer on a note without recourse. That is the only problem, and that is the only basis in law on which the retailer, perhaps, would not have to be responsible for the transaction.

Co-Chairman Senator CROLL: We have 11 bills before the committee, from the House of Commons, and one of those bills dealt with that particular problem.

Mr. HALES: Regarding this promissory note you take to the finance company for \$100, because you sold an article, the finance company gives you a cheque for \$100 to take the place of that promissory note. You say that the finance companies do not charge you as a dealer anything for that service or financing giving you back that \$100 for which you can pay for the goods.

Mr. BOYS: They do not charge me, because they charge the customer.

Mr. HALES: What if it is non recourse?

Mr. BOYS: I have never dealt non recourse myself, because I will not ask a finance company to take a deal I will not take myself. Every non recourse is exactly what it says—you may not come back on the dealer to take the goods back if the consumer will not pay—but they can on recourse.

Mr. HALES: What if it were in a type of business where you could not reclaim—in the case of food, for instance?

Mr. BOYS: Food is never sold through a finance company.

Mr. ROLLING: Are you thinking of the freezer business, Mr. Hales?

Mr. HALES: Yes.

Mr. ROLLING: One of the difficulties in the freezer business was to get some financing method for large purchases of food. They have had many ups and downs in supplying food, because of the risks involved, including insurance and spoilage if the current were cut off, and so on. I cannot think offhand of a finance company of the type we think of in every day transactions, which finances this.

Mr. HALES: This is a big operation in the United States.

Mr. ROLLING: It is.

Mr. HALES: And it will come to Canada.

Mr. ROLLING: This was one of their problems, finding a method of financing this risk in regard to food, because of people being able to eat it, leave it there, or throwing it away because of its perishability.

Mr. SCOTT: With all respect, I think Mr. Macdonald's questions were pertinent. We are interested in the economic facts on interest and wish to obtain legislative ideas. If legislation were passed which would make the paper assigned to the finance company subject to warranty, the purchaser would have recourse against the finance company for breaches of warranty, not service. What effect would that have on the tendency of the finance company not to handle that type of finance?

Mr. BOYS: There is no difference between warranty and service in my mind.

Mr. SCOTT: There certainly is in ours. Assume for a moment there are. Take defects in the article sold, as distinct from service?

Mr. ROLLING: I think you are thinking of a unit in a refrigerator or a washing machine, where the retailer has gone out of busines. In that case—we have not considered this—there is a possibility of the finance company not being too interested in that kind of paper. There is also a possibility at the manufacturing level, if something were worked out on a flat rate basis on certain articles. However this would be highly complicated for a large organization making a multiplicity of major appliances. I would think there would be some difficulties involved.

Mr. SCOTT: To what extent is there uniformity in these dealer charges?

Mr. BOYS: They are very close together in charges to the finance companies, other than non-recourse.

Mr. SCOTT: In the case of your carrying on for the first three months yourself, I got the impression you were hitching the dollar on the air, and not on a standard set of charges?

Mr. BOYS: We have a standard set of charges.

Mr. SCOTT: Is that your association?

Mr. BOYS: Not the retail association. My own store.

Mr. SCOTT: But throughout the association itself, have you uniformity of charges?

Mr. BOYS: No, the association does not enter into interest charges with retail paper.

Mr. SCOTT: Does the uniformity set in at the point where you assign the long-term credit to the various finance companies?

Mr. BOYS: In my own case, yes.

Mr. SCOTT: You are speaking for the association? In the case of the association?

Mr. BOYS: I do not know what all retailers do, whether they carry their own paper.

Mr. ROLLING: There are 183,000 retail outlets in Canada, at the last count, and some do not deal with credit, and some do not semi-service retail.

Mr. SCOTT: Would you mind explaining your statement at the top of page 7. You submit that the proper disclosure should be in the form of dollars and cents, and you say:

In many instances, the additional declaration of an effective rate of simple interest would serve only to confuse the customer and, in some cases, such a declaration would be entirely beyond the comprehension of the purchaser.

Mr. ROLLING: We would be referring to the dollar charge, now being declared as a percentage of interest. It is a case of relationship on the part of the consumer in relating those two things. This may look frightfully high as a case of percentage, whereas the dollars may look very low, and the association is much quicker with the dollars than the conversion of this percentage to dollars, or its relationship. That is what is really meant by it.

Mr. SCOTT: Are you not depriving the purchaser of any real method by which he is able to understand, and that is why he buys so quickly? You hold up two thumbs, and tell him that the right thumb is a dollar, and it is much easier to put this across to the purchaser?

Mr. ROLLING: No, no. It is much easier for the association to put it to the consumer in the dollar form as against the application of the percentage form. Could I give you an example? A few years ago they used to advertise a specific percentage down. The measure of the business was that a great deal of business was not coming from half-page, quarter-page and fifth-page ads in some cases. Where the price of the article was \$337.37, by saying 10 per cent down or 15 per cent down, the business was not coming in at all, but when the customer was required to put a specific amount of money down, this changed the whole complexion of the advertising at that time. Do I clarify that point? The dollars and cents rather than the percentage seemed to stimulate more interest.

Mr. SCOTT: But do you not think that is more confusing to the purchaser?

Mr. ROLLING: Well, I think it is to the purchaser, in many cases.

Mr. SCOTT: That is quite an observation.

Mr. ROLLING: I could give you an example. If you or I went to our wives, and we were working on the monthly budget at \$145 a month, and I suddenly threw a grounder at her, and said we are only going to have 12½ per cent of our salary, I fancy she would think there would be quite a loss.

Mr. SCOTT: You might lose a good many other things as well.

Mr. ROLLING: I might at that moment, it is true.

Mr. SCOTT: On a \$500 purchase, what is the dollar charge?

Mr. ROLLING: I don't follow you. What down payment?

Mr. SCOTT: In say two years?

Mr. BOYS: \$500 unpaid balance? Nine per cent would be \$90 for two years.

Mr. SCOTT: Is that the rate you charge?

Mr. BOYS: I believe my accountant could figure it out at 9 per cent.

Mr. URIE: Is that an add-on charge?

Mr. BOYS: Yes, on the unpaid balance, after the down payment and trade-in are off.

Mr. URIE: But that charge is added on before you determine what the percentage rate is—it is an add-on charge?

Mr. BOYS: That is right; but the percentage rate is already in the charge.

Mr. SCOTT: Why is it confusing, then, to tell the purchaser he is paying \$90 which constitutes 9 per cent?

Mr. BOYS: You would be surprised how many people, when I say, "How much do you have to pay down?", ask, "How much do I have to pay down." I reply, "The minimum is usually 10 per cent." They ask me, "How much is that?" It is quite common for people to ask that.

Mr. SCOTT: That refers to the down payment, but you still have not answered my question. Why is it confusing to the purchaser to tell him the finance cost is \$90 and 9 per cent?

Mr. BOYS: It is not, and if they ask me I tell them without hesitation, because I am not ashamed of it. But there is a charge of 24 per cent shown on Mr. Irwin's chart.

Mr. SCOTT: Then you say it is not confusing to the buyer?

Mr. BOYS: No, not in my own case. Other than that if he said he could go to the bank or to the credit bureau and borrow at $4\frac{1}{2}$ per cent to 6 per cent, or something like that, and why am I charging him 9 per cent.

Mr. SCOTT: Is that not a sensible question to ask?

Mr. BOYS: Yes, but it takes me a long time to answer it, and in the meantime sales are slipping away.

Mr. MACDONALD: I have one question, and I do not say this in a critical sense, but you say you have difficulty speaking for the membership on these various questions which are put to you as a whole. Is it not a fact that the retail business is so dispersed, and there are so many small outlets, that you have difficulty in generalizing what the business practice is as to what is desirable?

Mr. ROLLING: Certainly it is diversified. Committees are chosen, and even our executive is chosen, on a voluntary basis. We take as good a cross-section as possible of various types of business, and we do not dwell at great length on statistical information, but rather on what is the practical experience of these people today in association with the consumer.

Mr. BOYS: I was not too sure what you gentlemen were asking about this question of financing and dealer going out of business. In the case of a dealer going out of business, the consumer can always write or telephone the manufacturer, and without question any of our manufacturers will immediately reply to their letter and send me the letter, or a copy of it, and if I am out of business they will certainly reply to the customer and send a service man around there. It will be one of their factory representatives or one of their outside

service centres that they have hooked up to look after their warranty on the machine that was sold, so the customer is certainly entitled to that and will get that service direct from the manufacturer.

Mr. SCOTT: That is purely a matter of good will, not of obligation.

Mr. URIE: I have run into this in my practice of the law, that unless a purchaser has filed with the manufacturer a warranty card within 10 days, or some limited time, the manufacturer will refuse to have anything to do with the purchaser at all. For instance, many people will buy a toaster in a box, and enclosed with it is a warranty card which has to be signed and sent to the manufacturer within 10 days. Most people ignore or forget the card and don't send it back, but if you go to the manufacturer afterwards, not having sent in the card, you might as well forget it.

Mr. ROLLING: Do you think that applies to our larger and more reputable manufacturers?

Mr. URIE: Yes.

Mr. HALES: I do not think a reputable firm like General Electric would take a stand like that.

Co-Chairman Senator CROLL: We do not need to mention names of particular manufacturers.

Mr. URIE: I did not do so.

Mr. HALES: I will say any reputable firm.

Co-Chairman Senator CROLL: It is a matter of experience. All I can say is, and there are enough lawyers around the table who will bear me out, you should be in our division court some time. It is just flooded with these sort of cases, and some are pathetic, too.

Mr. Rolling, as I recall, when you buy, for instance, from one of the large suppliers, he bills you, and says 30 days, 7 per cent; 60 days, 9 per cent; 90 days, 10 per cent; or something like that. He sets out to you how you are to repay it. By way of invoice. That is the usual way it is done, is it not?

Mr. ROLLING: He renders an invoice and usually states quite clearly what the terms are.

Co-Chairman Senator CROLL: Yes. He renders you an invoice, saying \$100, 7 per cent in 30 days; 8 per cent in 60 days; 9 per cent in 90 days. That is the custom, is it not?

Mr. Boys: Our suppliers generally say one per cent, 10 days; net 30 days.

Co-Chairman Senator CROLL: All right, 1 per cent, 10 days.

Mr. L'HEUREUX: That is discount.

Co-Chairman Senator CROLL: Yes, that is discount, but if you do not pay discount isn't there any interest?

Mr. Boys: They might have 7 per cent on overdue accounts.

Co-Chairman Senator CROLL: But they give you both, the discount and the percentage, don't they?

Mr. Boys: For overdue accounts, but they do not mention 60 or 90 days.

Co-Chairman Senator CROLL: But you do have that information at that time—he provides it to you?

Mr. Boys: Yes, because I am a businessman and I understand it.

Co-Chairman Senator CROLL: Why shouldn't the man you are selling it to have the information as you have?

Mr. URIE: You are not suggesting the average consumer is less intelligent than the businessman?

Mr. Boys: No, they are more intelligent when it comes to buying, perhaps, than we are, but when it comes to percentage they cannot understand

it as a rule. We put on the bottom of our invoices, "7 per cent on past due accounts," but it never works.

Mr. SCOTT: How can they understand the percentage if you do not tell them what it is?

Mr. BOYS: We tell them what it is, but we are not willing to tell them 24 per cent.

Mr. MACDONALD: If, in fact, it is 24 per cent, should not you tell them that?

Mr. ROLLING: Is this in the case of borrowing money or all elements concerned in the cost of extending credit?

Mr. MACDONALD: All the elements concerned in the cost of extending credit.

Mr. ROLLING: You could come up with some fantastic percentages if you took all the elements of extending credit and wrapped them up in one package and called it simple interest.

Mr. MACDONALD: That is, in effect, what is done under the Small Loans Act.

Mr. URIE: What would your views be if credit were advanced and the requirement was with respect only to amounts over \$50, so you would not have this vast interest element on charges between \$1 and \$50, but had a flat rate?

Mr. ROLLING: How could you arrive at a figure that was correct as far as the amount is concerned? Would you have to make a study of how many transactions were made at \$50 and below, or \$100, say, and below?

Mr. URIE: No, but I think an organization like yours might be able to recommend to the committee that in respect of purchases below \$50 a flat rate of \$3, shall we say, might be applicable and cover all the elements of charge involved?

Mr. ROLLING: I think that would be difficult too. Mr. Deir is quite familiar with that. Normally the extension of terms in that type of business never goes more than six months, because the article is either worn out or is stained or something else by that time. Very often purchases are made, in the case of a large volume of articles, under \$50, and they can have credit extended on—I think, in a case of overcoats, suits—

Co-Chairman Senator CROLL: Radios?

Mr. ROLLING: Yes, radios, and so on.

Mr. URIE: If any charge is made you could say the charge will be \$2 or \$3 or whatever it might be, but anything over \$50 would have to be expressed not only as a dollar amount, but also a percentage. As a matter of fact, you may be interested to know, to our knowledge, that in New York State and California this type of system is actually in force.

Mr. ROLLING: I have read those regulations in New York State and also the discourse of Professor Johnson of the U.S.A., and this I found to be most enlightening, but we have not considered it here.

Mr. URIE: You must admit though, I think, as a result of one of the statements you made earlier when you pointed out there are so many select committees in Canada and also in the United States, there must be some abuses at the retail level which require correction. One suggestion has been that to enable the purchaser to compare charges being put to him there should be financial disclosure. Do you have any suggestion to the contrary?

Mr. ROLLING: Well, I would like to suggest one thing, first, Mr. Urie. There is a vast differentiation between those in the money lending field as against those that have to use money in the course of their business. I am speaking of the retailer. When we take on something on instalments, as we have to do in the case of a car, in the mortgage field, the personal loan field, all these various areas, I think there is a great possibility sometimes of these things being abused, and the consumer, you might broadly say, being taken over the jumps,

but I fail to see how by one fell swoop you could regulate all these things that are so much diversified. There are various segments of the economy.

One thing I would like to say—and it was my intention to qualify it a little later—is that we of the Retail Merchants Association are vitally interested in any decisions brought down by your committee. We would be most happy to loan our facilities, in any possible way, to assist and act as a sounding board with regard to some of your findings, by returning, if required.

As to the number of hearings in various provinces, we have found over the past 2½ years that this took off like a prairie fire and popped up in every province, and the chairman today, Senator Croll, referred to the report brought down 553 pages long by the provincial secretary in the Province of Nova Scotia for the proposed regulations. We have not had time to study it. We only heard of it last Friday, but this will have to have some scrutiny too. But we had this same challenge in Alberta, Manitoba, British Columbia and Ontario. But one thing we found was rather nicely done, as far as the Ontario select committee was concerned, and that was the statement made at the conclusion of the hearings, that they guessed as how we were not the fellows they were after, which we thought was a rather nice way of paying a compliment.

Co-Chairman Senator CROLL: I think the point you make is there is a special problem with respect to second hand cars?

Mr. ROLLING: Yes.

Co-Chairman Senator CROLL: Which is different from the problem that affects the retail merchants?

Mr. ROLLING: Yes.

Co-Chairman Senator CROLL: Which is different from the problem that affects the mortgage people?

Mr. ROLLING: Yes.

Co-Chairman Senator CROLL: We are aware of that. You make it, but we are quite aware of that in the committee. It has been before us time and again. You cannot have one brush for everybody.

Mr. MACDONALD: I would like to make this statement, Mr. Chairman. I think we generally can make that statement too. It seems to me in all these areas that inevitably it is the marginal, fly-by-night operator who is giving the established merchants such as yourselves a bad name. In other words, in referring to the retail trade they are referring to the marginal people and not established people like yourselves. We would like to enlist your help to correct these malpractices.

Mr. HALES: Mr. Chairman, we are so liable to get off on a tangent of all theory and forget the practical side of things. With this thought in mind, I am wondering if this association, say in the next month or two, would undertake two pilot projects on a fair basis and submit their records of these pilot projects to this committee.

Co-Chairman Senator CROLL: At the end of this month we will be at the end of our hearings. What may happen to Parliament, may not be in business two months from now. There will be a time lapse for the report and us. So we do not wish to lead them into a project when we will have to deal with the presentation that has already been before us.

Mr. HALES: I would still think the results of the pilot project would be in before the legislation was drafted.

Co-Chairman Senator CROLL: I agree.

Mr. HALES: And it might be helpful in that regard.

Co-Chairman Senator CROLL: But we do not want to obligate them to do that.

Mr. HALES: Well, if they want to do it it is up to them.

Senator THORVALDSON: Do I understand this is the last of our hearings?

Co-Chairman Senator CROLL: No, the end of the month, but we may be caught between parliaments.

Mr. URIE: Mr. Chairman, arising out of the remarks made a moment ago by Mr. Rolling, I made reference to legislation presently in existence in New York and California. You will recall in the retail instalment ceiling on amounts over a given amount there are rate ceilings imposed by that legislation. What are the views of your association with respect to the imposition of rate ceilings as opposed to rate disclosure?

Mr. ROLLING: It has not been discussed at the committee level at all. It was purely because of our own studies we undertook before presentations at various provincial levels. That is, as far as our National Office was concerned, it was not generally discussed with the dominion group.

Mr. URIE: Has there been any consultation between your association and a similar association, if any, in the United States, which would lead you to some conclusion as to the efficiency of legislation of that kind?

Mr. ROLLING: No. Our companion association or similar association in the United States would be the N.R.M.A., the National Retail Merchants Association, and other than a study conducted by them in 1963 with regard to consumer credit costs in department stores—this, of course, we have a copy of, and this was pretty widely published—we have not consulted them on any of their findings or recommendations.

Mr. URIE: Are the majority of the merchants who are members of your Association involved in cycle credit accounts or not?

Mr. ROLLING: There would be a small percentage only.

Co-Chairman Senator CROLL: Any other questions?

Mr. Rolling and gentlemen, thank you very much for coming here and giving us your views this morning. You have been very helpful to us.

The committee adjourned.

APPENDIX "T"

Submission to

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND THE HOUSE OF COMMONS
on CONSUMER CREDITBy the Retail Merchants Association of Canada Inc.,
4th Floor, Federation House, 1260 Bay Street,
Toronto 5, Ontario.

Ottawa, Canada

Tuesday, March 16, 1965.

The Retail Merchants Association of Canada Inc.

This submission is presented on behalf of the Retail Merchants Association of Canada Inc., a voluntary, non-profit organization founded in 1896 and incorporated by a Special Act of the Parliament of Canada in 1910 with authority to organize provincial and regional groups of retailers throughout Canada having Aims and Objects similar to those of the Dominion Association. The Association has been serving the interests of the retail industry, without interruption, for more than sixty years.

Aims and Objects

The Aims and Objects of the Association are:—

- (a) The promotion of the industrial and commercial interests of the retail merchants of Canada;
- (b) The collection and publication of information and statistics relating to or concerning such interests;
- (c) The arbitration and settlement of trade disputes arising between any of its members;
- (d) The procuring and furnishing to its members, information as to the solvency of persons who deal with any of its members; and
- (e) Generally, all such other lawful and similar objects for promoting the trade interests of its members as may from time to time be determined by the Association.

Present Organization

The Retail Merchants Association of Canada Inc. is organized from the municipal to the national level and does not duplicate any local, provincial or national organization. The affairs of the Association are carried on in all provinces but Newfoundland. The Provincial Associations are members of the Dominion Association and operate offices established in Vancouver, Edmonton, Calgary, Lethbridge, Saskatoon, Winnipeg, Toronto, Montreal and Moncton. The Head Office of the Dominion Association is located in the City of Toronto.

All Directors of the Association are retailers who volunteer their services. The Dominion Board of Directors govern and direct the policy and programs of the Dominion Association. This Board is elected at each annual meeting by equal representation from all member provinces. The Provincial Associations, which are incorporated provincially, are governed by the Provincial Boards, elected annually by the membership and representative of regional areas and all retail categories throughout the province.

The Dominion Association has jurisdiction in all matters which are national in scope as they relate to the industry and/or Federal legislation. Each of the Provincial Associations enjoys its own provincial autonomy and has

jurisdiction in all matters of a provincial nature. The National and Provincial offices are manned with competent staff and professional association management.

Membership

Membership across Canada is voluntary and representative of all retail trade classifications and includes the operators of small, medium and large retail establishments. Aggressive independent retailers in the category of small business predominate. Membership fees are paid direct to the Provincial Associations who remit a per capita payment to the Dominion Association. Our by-laws also provide for Associate memberships, with no voting privileges, provincially and nationally. These memberships are granted to suppliers of the retail trade (wholesalers, distributors and manufacturers).

On the basis of the foregoing, the average annual paid up representation of the Retail Merchants Association approximates 20,000 in addition to which more than double this number of retailers have held membership at some time over the course of the last five to ten years. While they are not regular annual contributors, many of these retailers consider themselves bona fide members of the R.M.A. in the belief that 'once a member—always a member'. To some extent they are still serviced by the Association and enjoy much of the benefit of our work. Representation is further extended when it is considered that, by virtue of our Letters Patent, many local and regional groups of retailers are fostered and organized with similar aims and objects. They are identified as "Retail Merchants Association"; maintain liaison on matters of M.R.A. policy; receive the benefit of our guidance and develop projects similar to our own. We do not count these organizations in reference to paid up representation for the simple reason they are not requested to contribute.

The Retail Merchants Association of Canada Inc. is considered the official spokesman for independent retailing in this country. As such, we serve the industry with a mailing list exceeding 60,000. The views we express are the carefully considered opinions of a responsible cross-section of retailing in Canada.

Government Representations

Throughout the past, we have endeavoured to serve our industry well. This probably accounts for the fact that R.M.A. is one of the nation's oldest and largest voluntary industrial organizations, numerically stronger today than ever before.

At the level of the Federal Government, the Dominion Association has a record of conscientious and responsible representations on most matters affecting the distributive industries and we feel that we have made at least some modest contribution to the economic welfare of our country. In recent years, we have appeared before numerous government bodies and committees of inquiry. The R.M.A. is well known for its advocacy of a Small Business Department within the framework of Trade and Commerce; a Government Program of Assistance for Small Business and the 1960 Amendments to the Combines Act respecting Trade Practices. It is a matter of association policy to actively support such government projects which are designed to stimulate employment and the nation's economy.

The importance of our representations is due not to the Association itself but to the scope and magnitude of the retail industry dominated by independent retailers, the largest segment of small business in Canada.

Retailing in Canada

Retailing in our free enterprise economy is no longer a satellite of production. It is vital to manufacturers, consumers and the economic system. It is the marketing function of retailers to perform the last stage of production and,

thereby, complete the marketing task of delivering to consumers their standard of living. It is difficult to measure the magnitude and importance of retailing to the Canadian economy because of its scope but it can be approximated by quantitative measures obtained from retail establishments.

The volume of retail trade varies greatly with business and economic conditions. During the ten year period from 1951 to 1961, sales increased from \$10,693,000,000 to \$16,664,000,000 or by approximately 55.8 per cent. Certainly some of the increase in sales volume is attributable to changes in price rather than to changes in the physical volume of goods distributed through retail establishments. Of course, any appraisal of retailing over a period of time must consider growth rates and changes in the movement of our Canadian population.

By comparison of the increase in Retail Sales to the increase in retail stores for the period 1951 to 1961, it will be observed that the growth in sales volume has outdistanced the increase in stores. This points to the trend in recent years toward a substantial increase in the scale of store operations. This trend will continue and, coupled with increased efficiency, will support the tendency for sales per establishment to gradually climb upward.

Independent Retailers

The single-unit independent store has long dominated the retailing structure in Canada both in terms of number of establishments and sales volume. The majority of these stores are relatively small family type enterprises. They are organized as proprietorships, partnerships and corporations. The sales volume of most of these stores ranges from a modest turnover to several hundred thousand dollars per annum. Independent stores have consistently accounted for approximately 70 per cent of the total volume of the retail trade. It has been the aggressive small independent retailer who has pioneered many of the institutional innovations in retailing. A note of optimism for the future of Independent Retailers is found in the growing demand for highly specialized shops (food and non-food) catering to special interest, fashion or ethnic groups and offering a considerable degree of service.

Shopping Centres

Growth of suburban shopping centres continues in metropolitan areas and the trend toward refurbishing of downtown areas—which includes improving store facilities and locations—is moving ahead.

Last year showed improved sales and earnings for many retailers—due in part to settling down of price wars that followed the emergence of the “discount” department chains. Now traditional department and variety stores, as well as supermarkets, independent and specialty shops, have moved to the suburbs to compete with the “discounters” and the “discounters” in turn are trading up.

Chain Stores

Chain stores have gradually increased their share of total retail sales and it is expected that their volume will continue to surge ahead during the next two or three years. The opening of several chain stores in the discount field, of itself, accounts for a portion of this increase. It is anticipated, however, by the Retail Merchants Association of Canada that the sales volume importance of chain stores will tend to become rather stable when it accounts for about 28 per cent of total retail sales volume.

It will, therefore, be readily seen by members of the Special Joint Committee that the independent sector of retailing in Canada accounts for the major portion of retail sales and, simultaneously, accounts for a very substantial portion of credit granted to consumers. In this respect, it should be

up in the recent Report of the Royal Commission on Banking and Finance noted that, on average, independent retailers have extended credit facilities to their customers, with very few exceptions, generously and honestly. It has been common practice to disclose the cost of credit in terms of dollars and cents which, in our opinion, is the only meaningful yardstick to consumers. The importance of consumer credit, as part of our way of life, is well summed which states that the majority of Canadians "have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms but in terms of convenience and ease of household living". We are in complete agreement with this observation.

The R.M.A. delegation welcomes the opportunity to appear before your Special Joint Committee to discuss the subject of Consumer Credit because it is a subject of vital concern to the retail industry, to the shopping public and to the nation's economic well-being.

May we state emphatically that the R.M.A. stands for integrity in the granting of consumer credit. It is essential that all of the principles involved in "truth in lending" be made to apply in the case of consumer credit. We take the posture that full disclosure of the cost of credit should be made to each purchaser at the time the sale is consummated and the credit contract is signed. It is our belief that such disclosure should be in the form of dollars and cents and should not take a form which would inhibit, in any way, the relationship between retailer and the consumer or retard existing convenient facilities which encourage the movement of more goods from retail outlets and provide the customer with all of the essential information in respect to the cost of credit.

The Retail Merchants Association of Canada Inc., in its presentation today, is bound to a series of resolutions adopted by the Association opposing any regulation which would require "disclosure" in the form of an effective rate of simple interest. It is our considered opinion that the declaration of an effective rate of interest would be impractical, if not impossible, in the case of the myriads of credit transactions handled by retail stores in their daily operations. Much has been said about the development of formulae for the calculation of simple interest but we, in R.M.A., have yet to see a formula, in Canada or the U.S.A., that will properly lend itself to the easy computation of an effective rate of interest as it pertains to the multitudinous and variable credit transactions found in the average retail store.

We believe that all retail credit transactions should safeguard the interests of the consumer and the retailer in a manageable and understandable way. Disclosure of the costs of credit should be meaningful to the consumer and manageable to the retailer. In this respect, both objectives are achieved when disclosure takes the form of dollars and cents. This is, by far, the best method to convey the true costs of credit to the consumer who, in the final analysis, is interested in the total dollar value of the credit contract and the dollar costs involved in credit charges. In many instances, the additional declaration of an effective rate of simple interest would serve only to confuse the customer and, in some cases, such a declaration would be entirely beyond the comprehension of the purchaser.

It should also be realized by your Committee that the declaration of simple interest in a retail credit transaction might well be an open invitation to the minority to engage in unscrupulous practices and to exercise deception on the consumer by various forms of manipulation and misrepresentation.

At this point, we would like to refer to the brief of The Canadian Chamber of Commerce, submitted in October, 1964, and state that we endorse this brief, particularly paragraphs 5 to 7 inclusive, which says:—

"5. We are in full agreement with the contention that the user of credit be in a position to know what the use of credit is costing him. We

submit, however, that the recommendation of the Royal Commission on Banking and Finance that credit grantors be required to disclose the effective rate of interest charged on accounts arising from the sale of goods or services will not accomplish this purpose in respect of such transactions. We support the presently widely practiced policy of disclosing the dollar amount of finance charges. In light of the special interest already shown by your Committee in the disclosure aspect of consumer credit costs we are concentrating our remarks in this submission in the method of stating the price of credit for purchases made at the retail level.

6. We submit that a requirement to convert dollar charges to a rate of interest per annum is a complicated and in some cases impractical procedure. We submit that efforts in this direction will lead to obscuring rather than clarifying credit charges, will increase costs of doing business and because of the complicated procedures involved will work a hardship particularly upon smaller merchants.

7. It is apparent that the amount of consumer credit which originates at the point of sale is a vital part of the total and it would be this segment most directly affected by any legislation calling for interest rate form of disclosure."

It is noted that general agreement has been indicated that it would be somewhat impossible to arrive at an effective rate of simple interest in the case of revolving or cyclical types of credit. We are aware of the suggestion that has been put before your Special Joint Committee that if legislative changes are contemplated on consumer credit, then revolving or cyclical types of credit should be eliminated from any such regulations. Such action would be highly discriminatory as it is well recognized that large department stores are concentrating more and more of their credit into the revolving or cyclical form of account. It would appear to us that while it would be difficult to apply an effective rate of simple interest to these types of accounts, it is equally as difficult to make application of simple interest to the other forms of credit accounts found in other traditional retail outlets.

The independent retailer is not in the money lending business and must find the funds to finance consumer credit from various sources in order to be competitive and to survive in business. The independent businessman is not in a position to dictate to his customers that all forms of credit will be in the shape of revolving or cyclical accounts. He must continue to offer thirty-day charge accounts (usually interest free). He must also offer facilities for short-term and long-term deferred payment plans as well as a revolving type of account. It would be an unusual situation indeed should Government regulations require the declaration of an effective rate of simple interest on one or more classes of these credit accounts while, at the same time, excusing similar requirements in the case of revolving accounts.

From our examination of submissions to Provincial Committees on Consumer Credit and to the Joint Committee of the Senate and House of Commons, some of the questions which have emanated from these Hearings would seem to infer that some Retailers, at least, would very much prefer to sell credit than sell merchandise. There is also the inference that some Retailers derive their profit not from the sale of merchandise at reasonable prices but from the earnings derived from the high cost of credit instead. Such a line of reasoning could be valid only in a rare number of cases. Retailing is a highly competitive business and the granting of consumer credit is equally competitive. It must also be realized that there is a high cost involved in granting consumer credit. These costs are not confined only to the cost of money but include as well all of the relative costs of handling the account plus provision for bad debts.

Credit is an essential element of our economy and essential to retail competition and the movement of more goods for Canadian consumption. This statement is borne out by the fact that when the large volume, non-service discount stores were launched in Canada a number of years ago, considerable publicity was given to the fact that services including credit would be eliminated in favour of lower prices. These discounters soon learned that they could not generate the volume necessary to a successful retail operation without the extension of consumer credit. Consequently, the situation today is that discounters are competing for credit business right along side of the more traditional retail outlets.

It is our view that any regulation requiring the declaration of an effective rate of simple interest would serve only as an impediment to the ease with which consumer credit is presently granted. Such an impediment could conceivably have the result of depressing retail sales and retail credit sales to the detriment of consumers, retailers and the economy as a whole.

It is the considered opinion of the Retail Merchants Association that it is highly desirable to segregate and to identify the finance charges wherever possible in order to show the consumer that credit carries a charge just like other services. This does not necessarily apply that the declaration of an effective rate of simple interest would be of any value whatsoever to the consumer in the identification of finance costs. For that matter, no method of stating finance charges will improve the good judgment of customers.

On the other hand, a statement of the dollars and cents finance costs should focus the consumers attention on the one true and constant measure of value for a time purchase—the total time price. It is, therefore, our conviction that the disclosure of total finance charges in dollars on instalment contracts is not only necessary and sufficient but superior to an effective rate of simple interest or a combination of "simple interest" plus "dollar disclosure".

Declaration of an effective rate of simple interest would not necessarily be helpful to the consumer in comparing charges unless application is made to identical goods, at the same price, the same down payment and the same length of contract which is often predetermined by the size of the monthly payments.

The average housewife consumer handles the major part of expenditures for the household budget. It would be rare indeed if she handled her budget on a percentage basis. To get the most mileage out of her budget, the housewife is primarily interested in the dollars and cents basis. She is quick to associate a \$20.00 monthly payment on a refrigerator, for instance, to about \$5.00 per week from the family budget.

It is, therefore, the contention of the Retail Merchants Association that the consumers best interests are being served by the declaration of credit charges in terms of dollars and cents. We cannot agree that the declaration of an effective rate of simple interest could possibly serve any constructive purpose. Indeed, it may have consequences which would impede the economy of Canada.



Second Session—Twenty-sixth Parliament
1964-65

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 17

TUESDAY, MARCH 23, 1965

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

The Federated Council of Sales Finance Companies: Mr. Peter Paul Saunders, President; Mr. C. E. Trudeau, Director; Mr. K. H. MacDonald, Director; Mr. J. Johnstone, Chairman, Legal and Legislative Committee; Mr. W. Watson Evans, Vice-President; Dr. J. Singer, Research Director and Consulting Economist; Mr. E. Michael Howarth, Executive Vice-President and Mr. Kenneth Inch, Member of the Association.

APPENDIX

U—Brief from The Federated Council of Sales Finance Companies

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett

Irvine
Lang
McGrand
Smith (*Queens-
Shelburne*)

Stambaugh
Thorvaldson
Vaillancourt—11.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux

Matte
McCutcheon
Nasserden
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE
(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved—That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto:

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,
Clerk of the House of Commons.

ORDER OF REFERENCE
(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE (House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

“On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit be Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof.”

LÉON-J. RAYMOND,
Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltzman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON-J. RAYMOND,

Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.

2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.

2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills has been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, March 23rd, 1965.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw, Hollett, McGrand and Thorvaldson, and

House of Commons: Messrs. Greene (*Joint Chairman*), Basford, Chrétien, Clancy, Hales, Miss Jewett, Messrs. Macdonald, McCutcheon Otto, Saltsman and Scott. 16.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Macdonald, it was Resolved to print the brief submitted by The Federated Council of Sales Finance Companies as appendix U to these proceedings.

The following witnesses were heard:

The Federated Council of Sales Finance Companies: Mr. Peter Paul Saunders, President; Mr. C. E. Trudeau, Director; Mr. K. H. Macdonald, Director; Mr. J. Johnstone, Chairman, Legal and Legislative Committee; Mr. W. Watson Evans, Vice-President; Dr. J. Singer, Research Director and Consulting Economist; Mr. E. Michael Howarth, Executive Vice-President; Mr. Kenneth Inch, Member of the Association.

At 12.45 p.m. the Committee adjourned until Tuesday next, March 30th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE
SPECIAL JOINT COMMITTEE OF THE SENATE AND
HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, March 23, 1965.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 10 a.m.

Senator David A. Croll and Mr. J. J. Greene, M.P., Co-Chairmen.

Co-Chairman Senator CROLL: I see a quorum.

Is it agreed that the brief submitted by the Federated Council of Sales Finance Companies be incorporated in today's proceedings?

Hon. SENATORS and MEMBERS: Agreed.

(For text of brief see Appendix "U")

Co-Chairman Senator CROLL: May I point out that if Parliament should prorogue on Friday—and I am simply guessing—we shall not be able to have a meeting of this committee next Tuesday. The committee would have to be reconstituted when Parliament reconvenes.

The Canadian Consumer Loan Association is to appear before us next Tuesday, and there has also been a request from the Council Service of the Anglican Diocese of Montreal, and I presume we shall want to hear them.

We have before us this morning the Federated Council of Sales Finance Companies. Sitting on Mr. Green's right is Mr. Peter Paul Saunders, Chairman, President, of the Federated Council of Sales Finance Companies and Laurentide Financial Corporation Limited. He will introduce the gentlemen who have come with him.

Mr. Peter Paul Saunders, Chairman, President, Federated Council of Sales Finance Companies and Laurentide Financial Corporation Ltd.: Honourable Chairmen, honourable senators, and members of the House of Commons, on behalf of the Federated Council of Sales Finance Companies, I thank you for the opportunity of submitting a brief to your committee and of appearing before you today.

I would like to introduce my associates. They are sitting on my right in the order that I shall mention them: Mr. W. Watson Evans, Vice-President, Federated Council of Sales Finance Companies and Executive Vice-President of Traders Finance Corporation; Mr. K. H. Macdonald, Director, Federated Council of Sales Finance Companies and Vice-President, Industrial Acceptance Corporation Limited; Mr. C. E. Trudeau, Director, Federated Council of Sales Finance Companies and President of the Canadian Acceptance Corporation Ltd.; Mr. E. Michael Howarth, Executive Vice-President, Federated Council of Sales Finance Companies; Mr. Kenneth Inch, Manager of Market Research and Statistics of the Industrial Acceptance Corporation; Mr. J. Johnstone, Secretary and General Counsel of Canadian Acceptance Corporation; and Dr. Jacques Singer, Research Director, Consulting Economist, W. A. Beckett and Associates.

As you can see, we are all, in one way or another, connected with the consumer credit industry and may I say at the outset, that we all share the

opinion that a committee of this importance, to study the various phases of consumer credit, is indeed welcomed by our industry. Sometimes the dispensing of credit has been surrounded by mysteries in the minds of the population at large. The studies of your committee should do much to clarify such misconceptions as may have arisen and to put the question of consumer credit in its proper perspective.

We are indeed fortunate in North America that we enjoy the highest standard of living in the world. A wide variety of goods and services have been made available to our Canadian population purely as the result of the availability of credit and, of course, neither the vast production facilities which sustain the manufacturing and marketing of these goods nor the corresponding price advantages of mass production would be possible were it not for the availability of consumer credit on a mass scale.

We do not appear before you with any intention of defending abuses or improper practises which may exist in our industry and to which we are strongly opposed. Such abuses, notwithstanding the publicity they have received, are isolated instances rather than general practices. Due to the size of our industry, it is impossible to guarantee, even if further legislation were enacted, that there will not always exist some unscrupulous individual or corporation who will engage in practices which all of us deplore. For example, every year thousands of people lose their lives in highway accidents. Nevertheless, it would be wrong to lay the blame for this on the motor industry and suggest that automobiles should be eliminated from our highways.

You have heard many submissions to your Committee from groups and individuals and I would venture to guess that in certain cases the information received has been contradictory to what others might have said. While we are sure that they are all sincere, we are confident that in these cases you will weigh the knowledge and experience in the field which support the various opinions submitted to you. We are not disinterested bystanders in the field of credit. Our livelihood and those of our employees and the welfare of our customers depends on the services we provide and on the general health of the credit industry in our nation. Many of our companies are public corporations owned by thousands of shareholders in all walks of life and in all corners of our land. We are tax paying corporations engaged in a segment of our economy which is vital to the well being of our country. We are hopeful that your deliberations will create a sounder and healthier economic climate for our industry and are anxious to clarify to the best of our ability any questions which may have arisen concerning the sales finance industry.

We are ready for questions, if there are some.

Co-Chairman Mr. GREENE: I do not think there is any need to go through your brief, Mr. Saunders. I think possibly the members have had it available, and if we could have our counsel, Mr. Urie, start firing at you, that might bring out the facts the committee wants; and if any member of the committee wishes to ask questions of any of you gentlemen, I think that is quite in order.

Probably, with the large panel we have available, if one of your panel wishes to answer any particular question or wishes to give his views on a particular question, our procedure is sufficiently loose to be able to permit that, if you so wish. Mr. Urie?

Mr. URIE: Thank you, Mr. Chairman.

Mr. Saunders, one of the issues which has been most frequently before the committee has been that of rate disclosure, but before getting into that aspect of the question I thought, for the information of the members of the committee, that perhaps we should just deal in general with the activities of sales finance corporations and their mode of operations.

Mr. SAUNDERS: Yes.

Mr. URIE: I think that some place in your brief you have mentioned the fact that the basis of your loaning money, as it were, is on the conditional sale contract. Could you tell the members of the committee if a standard form of contract is used by the members of your association or council?

Mr. SAUNDERS: It is standard in many ways, sir, although the various companies print their own forms and in appearance they may not look alike, the information contained in them is pretty well standard. I might say that conditional sales acts are enacted by the various provinces so that the legal part of the document—

Mr. URIE: —may vary?

Mr. SAUNDERS: —may vary, and does vary, as does the body, to some extent. In some provinces there is a minimum size of print, and there are a number of things which may vary. But, generally speaking, the information which is handed to the purchaser, who is the customer of the dealer and, therefore, indirectly our customer, is standard, and we have set out in the brief here the minimum information which—

Mr. URIE: That is at page 5?

Mr. SAUNDERS: Yes, on page 5—which we feel ought to be there, and I would say that that information is there. We have also in our brief to the royal commission, which I think I have filed with you as an appendix, the contract forms of a number of companies, and you will see too that they all follow a similar pattern.

Mr. URIE: I notice in paragraph 13 on page 5 that you state:

... all of the following information should be clearly stated on a conditional sale contract.

Is it in fact stated, or are those facts on all the conditional sale contracts of each of your members?

Mr. SAUNDERS: I should say "yes" very quickly, but we have close to 50 members, and I have not personally seen all their forms. This is the information which the council recommends, and I would say that all the major companies—and I have seen all their forms—do state this information. Whether in fact every single one of our members does, I am not quite sure, but I believe they do.

Mr. URIE: As far as the finance charges are concerned, how are they determined and how are the figures obtained which are inserted in the contract?

Mr. SAUNDERS: The transaction of the finance contract is consummated between a buyer and a seller, and the seller, in most cases, is a dealer. The buyer, of course, is usually a member of the public. The charge is determined by the seller as he makes up the contract.

Mr. URIE: How does he determine it?

Mr. SAUNDERS: Well, he determines it in a number of different ways. He could have a rate chart provided by his finance company, or he may just pull a figure out of the air. Generally speaking, he will use a rate chart as a guide because he wants to be competitive with other people.

Mr. URIE: In point of fact, in most instances I think it would be fair to say that each dealer has a finance company with which he normally deals, and as a result of which he will have that finance company's form of contract and, presumably, will also have that finance company's rate chart from which he derives the information to make up the contract?

Mr. SAUNDERS: Well, I would say that if you had asked this question 15 years ago the answer would have been a very quick "yes", but today this is partially wishful thinking on our part and, of course, it is the case in a great many

cases, but I would not say it is the general situation throughout. A number of dealers have forms from several companies. A number of dealers deal with more than one finance company. A number of dealers carry partially or all their own paper. A number of them discount with banks and other institutions.

I think that perhaps Mr. Trudeau might like to elaborate a little on this for your information, if I may ask him.

Mr. C. E. Trudeau, Director, Federated Council of Sales Finance Companies and President, Canadian Acceptance Corporation, Ltd.: As Mr. Saunders mentioned, there was a time when the average seller of durable goods either carried his own paper or sold paper to an instalment finance company of his choice. Today there are many dealers that are using several sources for their paper. There are dealers that have captive finance companies of their own, and there are dealers that generally right down the line establish the price they charge the customer without any reference to a finance company chart. They have their own charts. They decide what the purchaser will pay and at the time they close a transaction with the purchaser they might not have decided what they are going to do with the paper. They may keep it; they may pledge it as security for a bank loan; or they may sell it to the bank.

Mr. URIE: If they use their own charts, would an ordinary finance company likely buy that paper, if in fact the chart which is used is different from the one the finance company would normally use itself?

Mr. TRUDEAU: If the chart is not too high.

Mr. URIE: You mean, if the rate of charge as disclosed by the chart is not too high?

Mr. TRUDEAU: Yes.

Mr. URIE: In terms of dollars?

Mr. TRUDEAU: That is correct. The finance company's rate would be the same, regardless of which chart was used.

Mr. URIE: Would the finance company buy the contract if it did not happen to be on the normal form used by that particular finance company?

Mr. TRUDEAU: Yes, if it is a legally enforceable form. The dealer, when he assigns the contract to the finance company, warrants it is legally enforceable.

Mr. URIE: Would there be any difference in the amount paid to the dealer for the discount of this paper—the dealer reserve, for example, of which you have spoken in your brief?

Mr. TRUDEAU: There would be no difference, as far as our retention is concerned. Our price is the same.

Mr. URIE: Does that price vary from dealer to dealer?

Mr. TRUDEAU: Generally not; it could. I might qualify that by saying it does vary in relation to the volume of business the dealer creates.

Mr. URIE: Within what area does the price vary?

Mr. TRUDEAU: I don't know—are you familiar with the actual area?

Mr. Kenneth Inch, Manager, Market Research and Statistics of Industrial Acceptance Corporation: I am not sure of your definition of area.

Mr. URIE: Is it 5 per cent or 20 per cent?

Mr. INCH: I would say less than 10 per cent.

Mr. URIE: I wonder if we could get into this question of dealer reserves so that the members of the committee can be made aware how it works.

Mr. TRUDEAU: Dealer reserve is covered, I believe, in paragraph 12. I think probably one way of presenting it is to say that a dealer sets the price

of the financing when he negotiates the transaction with the buyer. He, in effect, establishes a retail price for the financing. That retail price could be a little higher than what the finance company would charge if he chooses to sell the paper to the finance company. It could be exactly the same as what the finance company would charge or it may in many instances be less.

There are many, many transactions today purchased by finance companies where the charge to the purchaser—the finance charge—is less than what the finance company gets. At one time it became common practice to call this a reserve because the finance company in many instances would not advance the entire purchase price of the transaction at the time they purchased it. They kept some part aside, and very often it was the amount that was in excess of what the dealer charged the purchaser, as a reserve. The name has carried on, but it is really the difference, if any, between the retail price for the financing established by the dealer and the wholesale price established by the finance company. Or, of course, the dealer may choose to use his bank to finance this piece of paper, and if that were the case what we define as a dealer reserve could very well be the difference between the retail price for the financing established by the dealer and accepted by his customer and what he pays the bank for the money.

Mr. URIE: You say "if any"—do you mean on some occasions, Mr. Trudeau, there is no difference?

Mr. TRUDEAU: Yes, and in many instances there is a subsidy from the dealer. The dealer charges the customer less than what our charge is when we purchase the contract.

Mr. URIE: And you get the difference from the dealer?

Mr. TRUDEAU: Yes.

Mr. URIE: In how many cases would this situation prevail?

Mr. TRUDEAU: It would depend on the market, and the kind of merchandising the dealer wants to do. We have dealers in the metropolitan market who customarily advertise extremely low finance charges. They hope to attract more business in this way.

Mr. URIE: You don't know the percentage?

Mr. TRUDEAU: No. We know our price is the same whether a customer pays less than our rate or the same.

Mr. URIE: That is important. Your rate is always the same?

Mr. TRUDEAU: Yes.

Mr. K. Macdonald, Director, Federated Council and Vice President of Industrial Acceptance Corporation: I think we have a point of importance here with reference to the motor vehicle industry. In the case of our own company some 50 per cent of the contracts are in connection with motor vehicles, in which case a very high percentage of the contracts will be purchased with no benefit of reserve accruing to the seller. This is a different type of industry. These various practices tend to grow in the various industries. In the appliance trade it is the merchant himself who may take the paper for a year, and when he has built up a portfolio he may decide to sell it to a finance company. He may have done business for a year charging nothing for financing, and we will buy the paper from him. He may make a charge which is not sufficient, in which case the finance charges, if they are not sufficient, may mean that he will have to subsidize a portion of the price of the contract.

Mr. URIE: If a finance company is supplying the wholesale finance for a dealer, or is supplying capital finance or something of that nature, I take it all the financing that dealer does will have to go through the company with which he is doing his wholesaling?

Mr. SAUNDERS: When you say "will have" it should be that way, but that statement cannot be made on a general basis. Wholesale pricing is primarily used in automobile financing, and there is considerably less wholesaling in equipment and practically none in appliances. In so far as it relates to the automobile part, the company doing the wholesale financing for that dealer will probably do most of his new car financing, but will not necessarily do it all. There may be a number of reasons for that; first of all a company may have credit standards which are higher than the dealer has, in which case he is at liberty to sell the paper to somebody else. Secondly, there may be questions of convenience to show why he decides to divide his business. There may also be customer preference for a company with which that customer has dealt before. So that although naturally the finance company which does the wholesale financing would hope to do all or a large part of it, it does not follow that that will be the case.

Mr. URIE: There is no contractual obligation to do so?

Mr. SAUNDERS: There is no enforceable contractual obligation. There is an undertaking when the deal is made, and they always carry on in that way.

Mr. URIE: What would happen if the dealer were to go some place else to do his retail financing?

Mr. SAUNDERS: There is no wholesale contract as such between a dealer and most of the finance companies. I am not aware of any. In the case of capital loans, it is usually written in that the finance company has first refusal on that dealer's business. The only alternative the finance company has, if they are dissatisfied with the way the dealer performs a contract, would be to demand repayment of the capital loan. In some instances that is done. On the other hand when a dealer himself realizes that most of his financing goes elsewhere, he will voluntarily pay the capital loan off because he realizes it is an unfair method of doing business. I am not aware of this as having been tested in court. I think Mr. Evans mentioned the same thing.

Mr. URIE: The rates charged in wholesale financing and capital financing are subject to negotiation between the dealer and the company, is that right?

Mr. SAUNDERS: Yes.

Mr. URIE: What is the average, shall we say, wholesale finance charge, and how is it expressed?

Mr. SAUNDERS: The average wholesale finance charge is made up of a service charge having to do with the number of transactions—a one-time service charge on transaction—and a rate of interest for the use of the money.

Mr. URIE: What does it work out to, though, Mr. Saunders?

Mr. SAUNDERS: In the case of new cars, 6½ per cent.

Mr. URIE: That is standard, is it?

Mr. SAUNDERS: It is pretty well standard. Competition will see to it that there is not too much fluctuation.

Mr. MACDONALD: You generally insure the vehicles?

Mr. SAUNDERS: Yes, against fire and theft.

Mr. URIE: But the rate is approximately the same throughout the industry?

Mr. SAUNDERS: Yes.

Mr. URIE: And there is competition there?

Mr. SAUNDERS: Yes, but the rate is not set by discussion between the various finance companies. It just happens that through the normal workings of competition it cannot deviate too much. It is possible that if a dealer is located at a very remote point there may have to be a somewhat higher

interest rate to compensate for that, but it is uncommon today to have a large deviation from $6\frac{1}{2}$ per cent. There may be some who will charge $6\frac{1}{4}$ per cent, and there may be others who will charge $6\frac{3}{4}$ per cent, but the fluctuation will not be great. I have mentioned that figure, and it refers to a wholesale transaction, namely, a new car transaction. If the wholesale transaction covers a used vehicle the interest rate would be higher.

Mr. URIE: By how much?

Mr. SAUNDERS: By about one per cent. Again, sometimes the wholesale transaction might be subsidized by a manufacturer. If that happens then the interest rate would be lower to a dealer, but the overall return would be about the same.

Mr. URIE: In any event, in all cases it is subject to negotiation between the dealer and the company?

Mr. SAUNDERS: Yes.

Mr. W. Watson Evans, Vice-President, Federatd Council of Sales Finance Companies: Could I add a word there? Wholesale finance is not accepted as a source of profit to the finance company, but it is a large expense item in the automobile dealer's operation. No finance company could retain a desirable automobile account and charge a wholesale rate that was significantly higher than that of other finance companies.

Mr. URIE: It is not a source of profit because you expect to get the bulk of the business of the dealer with whom you are dealing?

Mr. EVANS: Yes. Wholesale financing is an inducement so that the finance company can obtain a dealer's retail business and on which it makes its profit.

Mr. TRUDEAU: The rate as between individual transactions can vary quite a bit even though the average may be in the area of $6\frac{1}{2}$ per cent. There are two generally accepted ways of charging for wholesale, both of which call for an interest rate plus a charge. Some of the companies have a flat charge for each 30, 60 or 90-day period, and if the wholesale transaction were paid off the day after it was put on the books the interest rate would be substantially higher than if it were at the end of a 90-day period, and if the flat charge were set for 90 days. There are other companies that establish their flat charge on a cents per day basis, and they charge the same number of cents per day for a Volkswagen as they do for the most expensive Cadillac. The charges per day outstanding would be identical to the flat charge whether it is a 10-day wholesale item or a 30-day item. The per cent per annum pickup would be greater for a Volkswagen than for a Cadillac, but it would average in the area of $6\frac{1}{2}$ per cent.

Mr. URIE: Now, to get to the question of rate disclosure, you have advocated in your brief that the rate of charge for financing should be disclosed as a dollar item.

Co-Chairman Mr. GREENE: What is the page?

Mr. URIE: Page 6—no, it is on page 5, I think.

Mr. SAUNDERS: Yes, it starts on page 5.

Mr. URIE: Yes, paragraph 15. Now, you said also that in a majority of cases, at least, within your own council that figure is used now, and we have had evidence that that disclosure is used. We have also had evidence that it is used in the retail trade to a large extent, and in respect of consumer loans, and so on, so it would seem that in the vast number of credit transactions the rate is presently disclosed in terms of dollars. Notwithstanding this fact, we have, as

you have pointed out in your brief, this committee in existence plus other committees in Nova Scotia, Ontario, Manitoba and Alberta, and in 31 States of the United States. Those committees are looking into this question of consumer credit and its costs. All of this leads one to the conclusion that there may be something wrong with the system of disclosure in terms of dollars. Would you not agree that if it was functionally satisfactory the number of committees that are in existence would be unnecessary, and that therefore some other system may well have to be found?

Mr. SAUNDERS: I do not think I could draw quite that conclusion. The situation is that there is a number of factors in consumer credit, and as I mentioned in our opening statement we are very pleased that this committee does exist. There are things in the credit industry which can stand improvement, and we hope that you will come up with some recommendations to that effect. For instance, there should be a more uniform type of legislation, and a better consumer understanding of credit.

There is a number of things here dealing specifically with the question of disclosure. By this I do not mean to shirk the question—we want to deal with it in full—but consumer credit is a very important part of our day to day life. It is not generally greatly understood, and, perhaps, a start would be by having a better understanding of credit itself. If there are mysteries about this—and we have touched on this—perhaps the mysteries ought to be explained and clarified. Our counsel has taken the view that we would like to encourage a study of this subject, and we have given prizes to graduates and undergraduates at universities for articles and studies made on consumer credit. We have printed pamphlets of our own and we have published a book—perhaps a dry book but still very informative—on the subject of credit for those who are interested in studies of credit. There is a booklet which goes to the public, but we have also published a much thicker volume which can be found in libraries and universities, and which can be had on request and is supplied to students of consumer credit.

We feel that credit is in great demand by people, that they want it, but unless they understand exactly what is involved—well, nobody likes to pay out money. People are happy to go to a doctor when they are sick, but when they get his bill they feel that perhaps for a 15-minute visit he has charged too much. A number of instances can be cited of where after the service has been used people have second thoughts about the value they received. You might say the same about consulting a lawyer, or consulting any professional type of person.

Mr. URIE: So I have heard.

Mr. SAUNDERS: So, it is not unusual, when literally millions of Canadians use this service, and tens of millions of North Americans and hundreds of millions throughout the world, that the repercussions of those who perhaps feel that they should not pay so much creates some doubts. I was only trying to answer your question as to why there are so many committees set up.

As regards the form of disclosure I should only like to say that people earn their living in dollars and cents. They pay their bills in dollars and cents. They pay their rent in dollars and cents. All their expenses are in terms of dollars and cents. Quite apart from the merits or demerits of simple interest or any other form of interest as a yardstick, the best understood measure of value is dollars and cents. This does not necessarily mean that other yardsticks or other values are not good, but we are accustomed to thinking of expenses in terms of dollars and cents. We contend that any other form of disclosure than dollars and cents would be confusing, and in some cases misleading. We feel that if the dollars and cents are there then one knows exactly what one is paying. There is a certain amount of mystery surrounding credit already, as

I have mentioned, that might become more confusing—we think it would—if a yardstick of that type were introduced. I do not know if Mr. Macdonald might like to add something to that.

MR. MACDONALD: I think we become accustomed to various types of measure in various businesses. We buy eggs by the dozen, we buy milk by the quart, we buy butter by the pound. People become accustomed to these things. There seems to be no reason why we should not buy eggs by the pound—except that it would cost more for the farmer and more for the merchant and the customer would still prefer to buy eggs by the dozen.

In the case of disclosure of charges, I should like to make it amply clear at the outset that we do not in any way oppose disclosure. We are all for it. We have practised disclosure since the inception of our business and we believe in it wholeheartedly and we deplore those segments of industry which tend to confuse the public in this regard.

In the case of our own business, our customers do not ask us for the rate of interest: they are interested in knowing the difference between the cash price and the time price. They are interested in knowing the cost of financing, so that they can compare with the cost of financing through other mediums of credit.

It is a factor in our business—it costs a larger rate of dollar charge to handle smaller transactions than larger transactions, so our charts are not generally consistent. They must be built up in dollars, to cover the cost of doing business. We quote our charge to a dealer in dollars, a rate of dollars per \$100. This is the way we do our business.

While per cent per annum may seem like a good measure of charge in respect to those types of business where forbearance is the predominant factor, in the case of our business forbearance is perhaps less than half of our rate of charge, in other words, of our cost of money.

If we were asked to do business under a system where we would disclose interest per annum—said to be “simple interest”, which quality we say it does not have, and in fact it is anything but simple—it would inhibit our business, it would lead to malpractices in the industry which we have been trying to eradicate for years.

One has only to look at the mortgage business to see what has happened there, whereby, by the Interest Act, a lender is required to state, in terms of per cent per annum, the amount of charge on a mortgage. Yet you have discounts, bonuses, and such things creeping into that business, largely caused by the fact that the customer's thoughts are overshadowed by the interest rates.

In our business, we tell the customer exactly how much to pay and how many payments and over how long.

I suggest, particularly to the professional people here, that it is anything but simple to quote our type of charges in terms of interest per annum. I merely draw attention to some instances which are recorded in the proceedings of this committee, to indicate how errors do occur.

You had an expert chartered accountant, Mr. Irwin from Toronto, who appeared before the committee, who had substantial time to study these matters and also the figures and the only thing he could quote was that he thought an error of one-eighth of one per cent would be reasonable; and in this case, in the example where there was sufficient information to make a judgment, we found that he is out two and a quarter per cent per annum in his figures. Yet he is a man who earns his living in dealing with such figures.

We also see in the report of your proceedings that a conclusion has been drawn that in revolving credit one and a half per cent per month becomes 18 per cent per annum—when the facts are that it is never less than 18 per cent

per annum and may very often be several times that figure, or in fact may be 300 or 500 per cent per annum. When I say that, we can document that and prove it.

However, in those cases where it is one and a half per cent or one per cent, and in those cases the public understands that one per cent on \$300 is \$3. He understands that. What per cent per annum is, is not of interest to him.

We have done much in this business to dissuade merchants and dealers from camouflage charges, and to use a procedure which would tell the public exactly what they are paying for the credit they receive. We would wish and hope that your committee would give some attention to a more uniform type of disclosure, to be practised by all segments of the consumer credit industry, ours being only a small part of it.

You have people who are borrowing at a per cent per annum plus a service charge; there are people paying per cent per month; there are people borrowing from credit unions an amount of \$1,000 while they have \$400 on deposit, they never really know what they are paying per cent per annum because they borrow \$1,000 and keep \$400 on deposit. These are different segments of the credit industry. Perhaps in each case it will be found that the measure now in effect is the one most applicable to their type of business.

In our case, we feel sure that the dollar charge is the one that is correct for the type of business that we do. The 25,000 dealers whom we represent and who use it feel it is the best one in the interests of the public, and is one which informs the public in meaningful terms.

Mr. URIE: You are not suggesting, Mr. Macdonald, are you, that it is impossible to calculate, making use of the types of charts that Mr. Irwin referred to, to calculate the finance charges as the per cent per annum, in all transactions, with the possible exception of revolving credit?

Mr. MACDONALD: I commend Mr. Irwin, sir, for the suggestion of an actuarial method of charge. I submit, however, that professional men, a number of chartered accountants, have suggested other methods. Each seemed to have his own preferred type. You mentioned Nova Scotia. In that case a chartered accountant's firm was recommending the constant ratio method. You have others recommending the direct ratio method. All of these are useful and could provide a formula for calculating their per cent per annum, after considerable difficulty, in perhaps 60 to 75 per cent of the cases. But none of them have yet devised or yet offered to provide a means by which a merchant could readily calculate the per cent per annum on the other 25 to 40 per cent of his business.

Mr. URIE: In the first place, you have a royal commission on banking and finance which disagrees with you. You have an American commission which disagrees with you; and, according to a report in the *Ottawa Journal* of March 4 of this year, the Board of Trade in England disagrees with you, Mr. Macdonald. They have found, according to this report, that in fact a formula has been developed which could be of universal application in all credit transactions.

Mr. MACDONALD: If you have studied the formula in England—

Mr. URIE: I am not referring to the Maloney Report. This is subsequent to the Maloney Report.

Mr. MACDONALD: If you have studied the one in England recently offered—or, I should say, proffered—it is nothing more than a rehash of the direct ratio method, which is one of the oldest in the world.

Mr. URIE: I have not seen it.

Mr. MACDONALD: We try to keep ourselves informed. I say, with all due respect to this committee, that it seems to me that the fact that 31 states in the United States of America, plus the Board of Trade in England, plus recognized

bodies in other countries, have failed to come up with a practical way of solving this situation, surely in itself forms a body of opinion against the idea, rather than one for it.

Mr. URIE: I think it is more significant of the fact that there is a tremendous lobby of people like yourself, perhaps.

Some Hon. SENATORS: No, no.

Senator THORVALDSON: I object to this kind of question by counsel.

Co-Chairman Mr. GREENE: Order. I do not think we should commence—

Mr. URIE: I am sorry. I was wrong.

Co-Chairman Mr. GREENE: I think we can save argument for our sessions in camera.

Mr. URIE: In any event, Mr. Macdonald, you have also made the statement—

Senator THORVALDSON: Mr. Macdonald was trying to make a statement and was not allowed to complete it. In all fairness, I think he should be allowed to make a complete statement, before counsel proceeds with further examination.

Mr. MACDONALD: Thank you.

Co-Chairman Mr. GREENE: Would you complete your statement.

Mr. MACDONALD: We have not sought to calculate in terms of per cent per annum for our own purposes. We have endeavoured to accomplish these purposes, because of committees such as this one and commissions in other countries. At the same time, we have tried to point out that it is not our inability to develop a formula that causes us to oppose disclosure, it is other reasons, which I have endeavoured to state before this committee.

First of all, the only persons who seem intent upon this are people who seem to feel that they must be looking after the other man's business and to inform him of things he is not asking for, really. Be that as it may, it seems to be one of theory more than one of practical benefit. The customer can best compare charges between two merchants in terms of dollars. He can best compare methods of financing by way of two agencies in dollars. He knows whether or not to buy if he can make a better judgment, whether to buy or when to buy, when he knows how much in dollars it is going to cost him to do so. It is for those reasons that we oppose disclosure, not the practical means of developing a formula.

Mr. URIE: Are you suggesting that the example you use on page 7 in which you disclose the charge both in dollars and in per cent is not just as meaningful to the consumer as when shown in dollars alone?

Mr. MACDONALD: I think the customer would be very interested in knowing what the total price of transaction A and transaction B were. I think if the customer became preoccupied with the matter of interest he would be inclined to purchase at the store quoting the lowest interest rate; and we have pointed out that there are stores in Canada today advertising and offering merchandise at no finance charges, which is their means of developing a clientele, taking the customer's attention away from merchandise and putting it on the credit card.

Mr. URIE: On page 10 of your submission you have quoted from the Royal Commission on Banking and Finance which states:

Our studies indicate that by and large Canadians manage their finances with greater wisdom than appears to be popularly believed.

Now, if that is the case, would you not agree, Mr. Macdonald, that it is likely that the customer is going to assess both of the situations in stores A and B and decide on the merits of the goods he intends to buy? Do you not think that he is smart enough to find out that in fact that he is paying more in one store than in another?

Mr. MACDONALD: My contention as opposed to yours is that he is.

Mr. URIE: I do not have a contention, I am simply asking you a question.

Mr. MACDONALD: I submit to you that that is a rather incomplete question, and that you omitted the total price which—

Mr. URIE: I did not do that intentionally.

Mr. SAUNDERS: I was wondering, Mr. Chairman, if actually this example you have quoted is the point we are trying to illustrate. I think it is clear that the percentage in this case would be more confusing than anything else. We do not say necessarily confusing in all cases, or that it would be of absolutely no value to no one in certain cases. However, in the case of the transaction illustrated, unless the consumer thinks in terms of \$340 compared to \$345, where the \$340 is 17.9 per cent and the \$345 is 11.4 per cent, neither is that knowledge of any value to him, nor is that information on which he ought to base his decision, because on that information he would have made the wrong choice.

Co-Chairman Mr. GREENE: Just to make your point clear, I take it you are saying that disclosure of percentage would reduce the competition in regard to price and products?

Mr. SAUNDERS: It might do that.

Mr. MACDONALD: It is likely to put the emphasis on something other than price.

Mr. SAUNDERS: To give an example, it is not difficult to break anything down to a number of basic components. In the automobile industry, for instance, you may see a car quoted at \$2,000, and see the same car quoted for \$1,900. The joke goes that when you go to buy the \$1,900 car they tell you that is without the back tires, and that there will be another \$50 for two more tires, and then maybe another \$25 to put the doorknobs on. If you can strip something down on the one hand, and relate it to a percentage, and have a complete package on the other hand, and relate it to a percentage, you are not really comparing apples with apples, or oranges with oranges, but apples with oranges. Our contention is the consumer credit transaction is of a size as an individual transaction that forbearance for the use of money which in interest represents only a part of the cost of our doing business, and that if that part could be broken up and put down as a percentage and it would be relatively meaningless.

Mr. MACDONALD: We also oppose the interest disclosure on the basis that it would increase the cost of doing business. Having been amply proved, the difficulty of obtaining a satisfactory formula, each additional step business must take in its performance involves some costs. If it were necessary for us to require the dealers from whom we purchased to disclose in terms of per cent per annum, in the cost of doing business, we would have to help those dealers develop this information and it would substantially increase the cost of doing business.

It is difficult enough now to coach dealers in methods and the attendant documentation of selling on the instalment plan, but to add this additional burden on the industry could only lead to additional costs, which of course the consumer would eventually have to bear.

Co-Chairman Senator CROLL: I jotted down a few words which I understood you to say. You said the only people who are interested in this problem are people who are looking after other people's business. Did you intend to indicate that this was none of Parliament's business?

Mr. MACDONALD: I believe, sir, that this is Parliament's business.

Co-Chairman Senator CROLL: What were you saying when you made that statement, as I copied it down, or did I copy it down wrongly? I was a little surprised when I looked at it and read it—

Mr. MACDONALD: I didn't quite mean that, senator. I did mean that there is a great tendency to feel that certain less affluent people are ill-informed on the way they spend their money, whether they buy on credit or for cash, or things they need or do not need. I believe then there becomes a tendency in well-intentioned individuals and in associations and societies, to draw the conclusion that the consumer would be better informed if he knew it was 4 per cent or 8 per cent per annum of his cost of financing, when in fact the customer and the large body of customers are generally better able to decide when they know the cost in dollars.

Mr. SAUNDERS: I should like to add something, Mr. Chairman. I think that what Mr. Macdonald is saying, and I do not know whether that is clear, that we are of the opinion that many societies, associations and what have you, have come to the conclusion that if things were stated in simple interest the other fellow would be better off. We are not talking about Parliament's investigations, but rather than you may get certain bodies coming here, well-intentioned, and among their recommendations is a recommendation for this type of disclosure. The fact remains that neither are those people experts on the subject of finance, nor have they sat down and talked it out as thoroughly as, for instance, a body like ours would, who came here for the express purpose to answer your questions and to give information.

Mr. URIE: If I may interject, Mr. Macdonald made a statement that the consumer is better able to determine what his costs are going to be by looking at the dollar charge and that it is more meaningful to him from that point of view. Yet we have the Consumers' Association which comes before us representing the consumer, presumably, and they feel, in fairness, the consumer would be better able to judge if he had the cost expressed as a percentage. Can you tell me whether in fact your association, your council, has conducted a survey to ascertain from the consumers themselves what they want, or are you reaching conclusions from your experience with them?

Mr. SAUNDERS: I would say the very fact we have millions of transactions of this type is a survey of sorts, because the questions we are asked indicate the type of thing the consumer is interested in. We are not saying that if you said to a consumer, stopped one on the street and said, "Would you like to know how much interest you are paying on your loan or your credit transaction?" that he would say, "No, I am definitely not interested". The chances are anybody asked that question would say, "Yes, I would like to know." But the fact remains that when the consumer enters into a financing transaction his interest is not how much percentage interest he is going to pay but, basically, is he able to obtain credit. Then, if he is, how much is that credit going to cost him in terms of dollars and cents, and how much is he going to have to pay per month. What fraction of his income will it take to retire that credit so that he is going to be able to make up his mind is he going to be able to pay it back or not. When you ask a person on the street, "Would you like to know what percentage of your income it is going to cost you for your car?" probably he will say yes, but expressed this way I do not think it matters.

Mr. MACDONALD: It has also been drawn to the attention of your committee by a previous delegation, the effect of using interest disclosure, particularly respecting smaller items.

Co-Chairman Mr. GREENE: In your organization do you deal a great deal with consumers, or mostly with dealers?

Mr. SAUNDERS: We deal with the consumer after the fact, because he makes his payments directly to our offices. We deal with the consumer in case he has any questions with regard to his transaction, again after the fact. Our dealings with the consumer prior to the transaction are limited to those rare cases where

the credit is marginal and where the person participating in the interview may make the difference. But the information the consumer has to know to enter into a transaction is provided by the dealer. Our source of information to that effect comes second hand, except we have noticed our dealers are not shy in asking questions of us. If they felt the information which the consumer wants is not made available to them, then they would quickly ask us for it because they have never been loathe to put us to extra work to obtain that information.

Co-Chairman Senator CROLL: In the course of your wide business undertakings you deal with people who require mortgages and you grant them mortgages?

Mr. SAUNDERS: Yes.

Co-Chairman Senator CROLL: You say they are very much aware of the interest rate in mortgages?

Mr. SAUNDERS: Yes, they are—aware to an extent. I would say the main things, in the case of mortgages, that interest our customers are: First of all, are they going to be able to get the mortgage? Secondly, how high the mortgage is they can get, because they get the biggest mortgage they possibly can obtain. Thirdly, how long is the mortgage going to be—can they get it for five, ten or 20 years, or what? And how much is the monthly payment going to be? When all these things have been determined he says, "What is the rate of interest?" and we tell him the rate of interest. If you said "3 per cent he would say, "Can I have it for $2\frac{1}{2}$ per cent?" If you said, "8 per cent," he would try and get it for 7. This is normal bargaining material. The rate of interest is the matter which seems to come up last, although it is a factor in the transaction.

Co-Chairman Senator CROLL: But take the very same person who buys an automobile. First, you have a mortgage on his house, and you say, "The interest rate will be 7 per cent", and he says, "That is O.K."—or whatever it is. You disclose it. Why do you think that he is not much concerned about the interest on the automobile transaction? How do you differentiate?

Mr. SAUNDERS: I would like to answer that question this way, sir. First of all, I have said that the interest in interest on mortgages is the last matter which seems to be questioned, so it is not the paramount factor. In the case of a mortgage transaction he is interested in the longest possible time for repayment and is pledging a house, the life of which is anywhere from 20 to 40 years. He knows that he can make payments on that house, and he has established that it will not disappear or become obsolete or waste away. In the case of an automobile you are talking of a 24-month or, maybe, 36-month contract. He can measure the amount of the finance charge in relationship to his income for a short contract of that type. If in the case of a mortgage he were told that the actual cost of the mortgage—let us say, a \$5,000 mortgage over 20 years, that would be \$5,000 paid in interest. That would probably be very interesting information to that borrower, but that is really what they are interested in when they ask, in the case of a mortgage, how much it is going to cost, and we are used to expressing mortgages in terms of interest because of the length of time they run. It is basically the same information that he is after; he is after the cost.

Co-Chairman Mr. GREENE: You are not often asked the question in the case of a mortgage, "What will be the total interest I will pay in 20 years?"

Mr. SAUNDERS: No. I wish we were, because sometimes the borrower would then say, "Perhaps my interest should not be for 25 years, but maybe I would be better off to borrow for 15 years."

Co-Chairman Senator CROLL: The first question on the floor of the House in the House of Commons is interest—in reverse fashion. They want to know the interest rather than have it the way you put it.

Mr. MACDONALD: I think there has been a good deal of educational development in this respect too. I have before me here a publication of the Ontario Credit Union League published by its education department, which states:

Forget interest rates. Get the cost in dollars and cents. Remember you are going to pay in dollars and not percentage. No matter what interest rates are quoted, find out what the credit or loan will cost you in money, in dollars. This is the first thing to do.

This is the Ontario Credit Union League.

Mr. OTTO: Mr. Chairman, the meeting is getting dull. In paragraph 6 you state:

Among the various suppliers of consumer credit appearing before this Committee, the sales finance industry occupies a unique position.

Without getting into the question of semantics, your business is not really an industry, but it is a business; and it is not really unique, but it is in the business of lending money, which is age old and goes back before Biblical times.

Mr. SAUNDERS: No, we are in the business of extending credit. Perhaps it is a question of semantics. The second part of your statement that it is age old I think is quite correct, because credit has been extended from prior to Biblical times and sometimes not in terms of money.

Mr. OTTO: You are interested in usury and the lending of money, and there is nothing unique about it. However, I do not mean to deflate your ego. In paragraph 12 you say:

The amount of this "finance charge" is agreed upon between the buyer and the seller. . . .

The amount of this "finance charge" is agreed upon between the buyer and the seller . . .

When you say "agreed upon" it is really a unilateral agreement. People want the goods and, by and large, as long as the payments are within their budget, they are not in a position to bargain back and forth whether they are going to pay 18 or 19 or 11 per cent, so when you say "agreed upon" the offer is extended to them by the vendor, and they usually accept.

Mr. EVANS: That is not true at all.

Mr. SAUNDERS: Perhaps in a way it is, because in the same way, if you are going to fly from here to Montreal your ticket will cost X dollars. You agree to pay that price or you do not fly. If you are going to buy this desk from a certain store, the price is that much, and unless it happens to be the "flea market" you are going to pay the price the store asks. Credit is on the same basis. But it is agreed on, not to any less extent than any other purchase transaction is agreed on.

Mr. OTTO: But is that bargaining for it?

Mr. SAUNDERS: Perhaps to some extent they may bargain for it.

Mr. TRUDEAU: He decides how much the payment is and over what term and what the total is that he will have to pay. These are all factors that a man considers when he decides to use credit.

Mr. SAUNDERS: I think it is a question of interpretation of your question. The dealer and the customer agree on this just as they agree on the price of the

car and various things that will be added to the car. It is the same as if I were to decide to rent a \$15-room or a \$20-room in a hotel. It is a question of choice.

Mr. OTTO: The word "agreed" does not lend itself to including any item of bargaining.

Mr. SAUNDERS: Shopping.

Mr. OTTO: In paragraph 13 you outline what your industry demands. Now, is there an omission there, because there seems to be one thing that might have been omitted. I do not see here that you also want and demand a personal note. You do, do you not?

Mr. SAUNDERS: In most cases, yes.

Mr. OTTO: Among these items listed here there is also a note which is absolute, and the purchaser has to sign it and it also states that this note is payable without recourse, and you insist that he pays that note whether the goods are valuable or not valuable.

Mr. SAUNDERS: I don't think that is correct.

Senator THORVALDSON: Surely that is a matter of law. I had a lawsuit on that point many years ago. It is a matter of law still in the process of becoming final.

Mr. MACDONALD: We might be interested in finding out what Mr. Saunders thinks the law is. Perhaps Mr. Johnstone can answer.

Mr. JOHNSTONE: All companies do not utilize a note with conditional sales contracts. Many members of the Federated Council do not have promissory notes forming part of the conditional sales contract. In paragraph 13 you are looking at the disclosure section as it appears in the conditional sales contract. We say this is the information the customer requires, to be able to assess whether or not he is getting the best deal. This has nothing to do with the form of documentation being taken to secure the obligation. We have not commented on what form of documentation would support this disclosure information. It could be a conditional sales contract, and with some companies it would also be supported by a promissory note.

Mr. OTTO: By and large your members are not interested in the repossession of articles?

Mr. SAUNDERS: Certainly.

Mr. OTTO: All you want is the money. You don't want the goods back.

Mr. SAUNDERS: We don't want the goods; we would like to extend credit to somebody who wants the goods.

Mr. EVANS: We are not retail merchants.

Mr. OTTO: On page 10, paragraph 26, you say that:

. . . only a small percentage of all sales finance transactions become delinquent, and settlement is generally accomplished with one or two reminders on the part of the sales finance company. Only a small fraction of these delinquent accounts ever reach the stage where legal measures, such as repossession, become necessary.

What you are saying is that only a very small percentage of accounts become delinquent, and that all you do is to send a couple of small reminders. I am sure you will agree that once you have the note or the conditional sales contract you will make use of every facet of the law, whether it is garnishee, or very pointed letters to the employer and so on to collect this money.

Mr. MACDONALD: On the contrary, I would say that less than one per cent of the contracts we purchase ever result in litigation.

Mr. OTTO: The percentage does not matter. Are you saying that you forgive debts and charge them off as bad debts or do you collect them?

Mr. MACDONALD: In the case of our company, and I believe I speak for the greater segment of the Federated Council, resort to garnishee is practically never used.

Mr. OTTO: In the case of your company it is never used? Do you follow the transactions in the hands of your lawyers and collection agencies?

Mr. MACDONALD: We turn over to a solicitor for collection less than one tenth of one per cent of our accounts.

Mr. OTTO: In the case of those who find trouble in paying fully, do you give your lawyers permission to take action and to make use of any means possible to ensure collection?

Mr. MACDONALD: First of all, we are dealing with a very small minority. I would be inclined to think that we would have, with some half-million customers in Canada and with some 250 offices, less than one account per office in any form of litigation at any time.

Mr. OTTO: But you will realize it is this small percentage that still gives rise to the reason for our being here.

Mr. SAUNDERS: I would hope not.

Mr. EVANS: Is the law something indecent that we should not use it?

Mr. OTTO: No, but I contend you make use of all advertising media to induce people to borrow money, but you go to the law to get it to collect it. You do not resort to the advertising media in that case.

Mr. TRUDEAU: We are not lenders.

Mr. MACDONALD: We do not advertise to obtain our business from the public. We get this business from some 25,000 merchants in Canada. It is the merchant who creates the business on our behalf.

Mr. OTTO: Do you have a set policy with collection agencies or with your lawyers as to how they must conduct themselves in the collection of money, and how much pressure they should use, or do you leave this entirely in the hands of the lawyers or the collection agencies?

Mr. JOHNSTONE: Speaking for our own company, I would say we control the transactions placed in the hands of our lawyers. We control throughout the steps that are to be taken. Quite frankly, if you look at our success before the courts, we don't take many cases to court.

Mr. OTTO: That is the question answered.

Mr. MACDONALD: I would like to qualify it further, if I may. I think in the case of most companies 90 per cent of the accounts pay without notice, 7 per cent will pay on giving them a little reminder, and 3 per cent might require a few telephone calls, and you might arrive at one per cent where default conditions exist. But in most cases a customer, through various circumstances—perhaps the merchandise does not stand up, or there may have been a change in his earning power or some problem inflicted upon him, and the return of the merchandise would usually be the end of the contract.

Mr. EVANS: There seems to be the suggestion that the alternatives are either the retail purchaser pays in accordance with the terms of the contract or he bleeds. These are not the alternatives. In the majority of cases of accounts that become delinquent, a perfectly amicable repayment is arranged between debtor and creditor.

Mr. OTTO: I put it to you this way, by and large industry and business has a certain element of write-off of bad debts. The banks do not have that. Do you write off any portion or do you make any allowances for write-off of bad debts, or do you keep them on the books at all times?

Mr. SAUNDERS: We write off accounts that are deemed to be uncollectible, and they are deemed to be uncollectible for perhaps a variety of reasons. They might be uncollectible because the purchaser has disappeared and we cannot find him. They might be uncollectible because his ability to earn has disappeared. They might be uncollectible because the merchandise was destroyed and perhaps not insured against fire or other hazards. These are matters for which we have special protections. Sometimes they are uncollectible because the item has been returned to the merchant, and the merchant cannot make the payment.

Mr. OTTO: I do not want to argue with you, but if that is the case then very few lawyers need to be worried about the number of clients coming in.

I should like to refer to table 1, which is quite interesting. The estimated total of consumer credit outstanding in Canada at the end of 1964 appears to be just over \$6 billion. If that is divided by the population it would indicate that every man, woman and child is indebted to the extent of about \$300. If we take it by way of family breakdown, and exclude the percentage of people who do not use credit, it would seem to indicate that each family that used credit—or about 80 per cent of the families in Canada—is indebted to the amount of about \$2,000. This seems to indicate that a great number of Canadian families have already pledged a good part of their disposable income for many years to come. On that basis, and assuming you are correct that disclosure of the interest rate has nothing to do with whether or not we will be able to solve some of the problems of consumer credit, can you indicate where the money that you need for other purposes is coming from. I understand that some companies are going into land acquisition and mortgages, and thus taking money out of the consumer credit business. Is this money coming out of surplus, or is it some of this money that is now being used for consumer credit and, in other words, to keep our industry going, or is this money coming from elsewhere?

Mr. SAUNDERS: I am not sure that I understand your question.

Mr. OTTO: I will put it in another way. As I explained, there is owing about \$2,000 per family, and it seems to me that we need more and more money from your industry to keep the economic activity going. I am also given to understand that I.A.C. and Laurentide and other corporations are putting more emphasis on land acquisition and mortgages on land. Does this mean that this money is coming from consumer credit funds or from other sources than consumer credit funds?

Mr. SAUNDERS: Well, the various companies you have mentioned are integrated financial organizations, and they have departments for those different divisions of their business, and they raise the money they need for each segment. It happens to be one corporate entity that raises it. As we know, the banks are going into the consumer credit business, and it might be asked whether they are taking money out of the commercial lending field where it is needed to keep the economy going. Well, in a way they are, but in another way they are not. Some of these loans that you have mentioned have actually gone to replace that portion of the commercial field which is being vacated by the banks reallocating their funds. The money markets are fluid, and free enterprise sees to it that the demand is met where it can be met and best be met by the people who are there to meet it. There are no funds earmarked as such for consumer credit or business credit or long term credit, or the other different phases.

Mr. OTTO: When I mentioned before that approximately each family has already pledged its future earnings for some time I should have said that on top of that they have to pay approximately 18 per cent interest. That reduces further still their purchasing power. Has your association thought of the long range consequences of the expansion of consumer credit?

Mr. SAUNDERS: We have thought about it, and we are quite happy with it. Our modern way of living and our high standard of living are to a large extent the products of consumer credit. If consumer credit were not available we would not have automobile factories turning out hundreds of thousands of cars in Canada. If consumer credit were not available we would not have domestic appliances, which reduce the work load of the average housewife. These are things that have made Canada a better place to live in than many other parts of the world, and they have also created the factories and the numerous jobs for workers.

Many payments in the form of instalment payments have taken place, and these are payments which were previously made for services, and formerly these payments for services would add up to a liability, and now they have been capitalized into actual possessions or assets. A simple example of this is that of the washing machine that has replaced the Chinese laundry in many places. The refrigerator has replaced the iceman. The automobile has reduced the need for mass public transportation. There is still a need there, but it would be a far greater need were it not for the number of cars on the roads.

Various things which now reflect on the asset side of the household's balance sheet were not there, but the liabilities in the form of payments for service were there. Domestic servants today are almost completely a thing of the past.

Mr. OTTO: Yes, but, Mr. Saunders, my question is this: Assuming my figures are accurate—that is, about 75 per cent of the families are indebted to the extent of \$2,000—then suppose they have a disposable income of \$500, they have already pledged four years of their future earnings. If this figure increases to \$4,000, or even a bit less, then they would average six or eight years of their future earnings already pledged, and if they have to pay 18 per cent interest on top of that then they probably no longer have any disposable income for the rest of their lives. What I am asking is whether your association has considered this problem—the problem created by the expansion of consumer credit.

Mr. MACDONALD: It is rather easy to lose sight of the fact that our industry pays out millions of dollars across the country each day. Although we pay out \$3 million or to \$4 million a day on new purchases we receive at the same time approximately the same amount on contracts already outstanding. More than 60 per cent of our outstanding dollars will be paid out in 12 months, and more than 75 per cent will be paid out in two years. This is a continuously revolving arrangement with respect to the purchase of goods, and the people are acquiring assets by the purchase of these goods; thus the public balance sheet is being improved continuously. This will happen as long as we are purchasing contracts involving durable goods which add to the storehouse of family goods, against which there is a diminishing balance owing. There are, however, new family formations and new people coming of age who are purchasing and acquiring such goods, and this then causes this amount to remain outstanding and even to increase from time to time, but there is generally an offsetting amount provided by the people who are paying out. Ours is a relatively short term type of credit.

Mr. OTTO: I have no further questions, but I should say that I hope you people do not decide to go on strike, because if you ever did our economy would flounder.

Co-Chairman Mr. GREENE: Mr. Macdonald?

Mr. MACDONALD, M.P.: I have a line of questions to ask. Yours in the acceptance business. As such is it subject to direct regulation, federal or provincial?

Mr. SAUNDERS: Well, certainly not federal. There are certain provincial regulations covering the conditional sale of goods.

Mr. MACDONALD, M.P.: I mean direct in the sense that the small loans business is regulated.

Mr. SAUNDERS: It is a different type of regulation. For instance, the sale of goods is under provincial regulation, and so is the conditional sale of goods.

Mr. MACDONALD, M.P.: And this is done by general statute and not under any reporting regulations such as those under which the small loans business operates?

Mr. SAUNDERS: Yes.

Mr. MACDONALD, M.P.: And your companies are incorporated in the ordinary way, and not by special act?

Mr. SAUNDERS: Yes.

Mr. MACDONALD, M.P.: You regard yourself as distinct from the Canadian Consumer Loan Association?

Mr. SAUNDERS: Yes.

Mr. MACDONALD, M.P.: However, I think I am right in saying that many of the companies affiliated with your group are in the consumer loan business.

Mr. SAUNDERS: A number of our members have subsidiaries, which are consumer loan companies.

Mr. MACDONALD, M.P.: How general is that among your membership? In other words, how many of you have consumer loan companies?

Mr. SAUNDERS: I would say all of the large companies in our membership. Very few of the smaller companies would have such subsidiaries. It takes a considerable amount of capital to form a consumer loan company, and it is mainly the larger companies that have done it.

Mr. MACDONALD, M.P.: Do you have affiliated insurance companies in your operations?

Mr. SAUNDERS: Yes.

Mr. MACDONALD, M.P.: And is it customary in the business to require that durables be insured with the affiliated company?

Mr. SAUNDERS: First of all, I will answer the question in parts. We have affiliated insurance companies, and the reason that we have them is to provide the service, rather than to coerce, as one might feel, the purchaser of that service. There is no coercion at all. We do require insurance on our financial contracts. In many provinces the law requires that there be insurance on the contract. It would not be responsible for a borrower to neglect to insure his durable goods, especially if it is an automobile. In many cases, the purchaser is not able to arrange insurance. Consequently, we were forced into the position of providing that service. That service has occasionally made us some money, but in more instances than that it has lost us money. From financial statements of our various companies you will see that money is lost in insurance.

Mr. MACDONALD, M.P.: As a matter of interest, does that include both the value of the goods itself and the public liability and property damage, or just the value of the goods?

Mr. SAUNDERS: Those companies that offer insurance services for public liability and property damage have to go through more complicated applications than others.

Mr. TRUDEAU: Only two or three companies include public liability. Most companies restrict to property damage.

Mr. MACDONALD, M.P.: You regard the insurance premium as part of the finance charge that the borrower has to pay?

Mr. SAUNDERS: No. For instance, if he were to cancel his insurance, he would get his rebate on the insurance premium. He can carry on with the finance charge or the purchase; but we would probably ask him to supply evidence of other insurance—or to park his car in a garage.

Mr. MACDONALD, M.P.: To what extent are you interested in a registered pawnbroker?

Mr. SAUNDERS: I am not aware of any.

Mr. MACDONALD, M.P.: To what extent do the companies carry on the practice known as factoring?

Mr. SAUNDERS: Very little.

Mr. EVANS: We have a factoring subsidiary.

Mr. MACDONALD, M.P.: Percentages are meaningful. Could you put a percentage on it?

Mr. SAUNDERS: I do not think I can. Perhaps Mr. Evans could.

Mr. EVANS: Percentage of what?

Mr. MACDONALD, M.P.: Percentage, say, in the case of Traders—all your entire empire.

Mr. EVANS: It is a small percentage—perhaps less than 10 per cent.

Mr. MACDONALD, M.P.: Is it something that is dynamic?

Mr. EVANS: Yes, it is.

Mr. MACDONALD, M. P.: In the process of factoring, do you set out regulations applying to the party whose accounts you are factoring, which would in effect bind the type of contract that they can enter into with the public?

Mr. EVANS: I am not sure that I understand the question.

Mr. MACDONALD, M.P.: You set up an entire regime in which you will factor—or do you take each case on its merits?

Mr. EVANS: There is an infinite variety of methods of operation.

Mr. MACDONALD, M.P.: So you do not have standardized types of document such as there are in the general acceptance business? You take accounts as you find them and make individual decisions?

Mr. TRUDEAU: A large percentage of what Canadian people call factoring is not really true factoring. I doubt if \$10 million is invested in Canada in true formal factoring. There is a larger amount in commercial financing, or loans secured by accounts receivable—which is not true factoring.

Mr. EVANS: This particular company does practically no true factoring, in the technical sense of the word.

Mr. TRUDEAU: I know of only two or three firms which do a true factoring business, and they are subsidiaries of American companies, and they are factoring because the American company is factoring; but it is not an accepted kind of factoring in Canada.

Mr. MACDONALD, M.P.: In paragraph 22 of your brief, you quote from the British Moloney Report as follows:

We observe, however, that the consumer does not appear to be incapable of distinguishing between different scales of hire-purchase charges, since there are some dealers who inflate the stated cash price so as to make hire-purchase terms offered by them appear to be more attractive.

But in paragraph 16 you make reference to the fact that the public could be baffled by hiding some of the finance charges in the purchase price. Do you not think those two statements are in contradiction?

Mr. SAUNDERS: Not entirely. They may appear that way. In some cases, interest has become a matter of discussion. For instance, dealers have advertised "no interest", as we are aware—and are also advertising "no carrying charges", "cash prices on credit"—it does exist to some extent today, and it is competing. There would be a lot more of this, if the interest itself became the important yardstick whereby people judged their credit costs. I do not know whether that answers your question.

Mr. MACDONALD: You also have the case of a man who has contracted to borrow \$1,000 to purchase a car. He borrows on a mortgage on his house of say, 7 per cent over a period of two years. This amounts to \$75 to \$90. He considers he has done well, because he has paid 7 per cent, when in fact, with other costs involved, it is going to cost him, let us, say, \$200 to put the mortgage on and take it off the house—when he could have obtained from a dealer the same credit at a higher rate of interest, but which would cost him perhaps only \$150.

Mr. MACDONALD, M.P.: Taking the cost of borrowing, the solicitor's fees, the searches, etc.?

Mr. MACDONALD: Yes.

Mr. MACDONALD, M.P.: That leads me into the next question. It is based on your example in paragraph 18. You refer to the direct cash price there. Surely the real factor here is that, in your example with store A, could not the man contract to pay \$310, and then go around and get a Scotia plan loan at the maximum cost of 11.6 per cent on a simple annual interest rate basis?

Mr. SAUNDERS: He does that sometimes today.

Mr. MACDONALD, M.P.: So it is highly useful to him to be able to compare the interest he pays under these examples. It seems to me that it is useful if he can choose between paying 17.9 per cent and paying 11.6 per cent.

Mr. SAUNDERS: First of all, he does not know that he pays 11.6 per cent on the Scotia plan loan: he thinks he is paying 6 per cent. He goes there because he thinks he is paying 6 per cent and he does not know he is paying more.

Mr. MACDONALD, M.P.: If certain parliamentary events take place, you may be in a conflict of interest. Would you like to see the Bank Act interest rate amended so that it would be stated that it is 11.6 per cent, so that there would be true disclosure by chartered banks?

Mr. SAUNDERS: I think it would be more meaningful to say that on a loan of \$200 he will have to pay \$239 or whatever the amount may be. The very fact that there is a 6 per cent ceiling has created in the minds of the public the feeling that the bank loan is at 6 per cent. Thereby, they have adopted the attitude that that interest at 6 per cent is cheap and that anything else is unreasonable or unconscionable, if you wish to use that term.

Mr. MACDONALD, M.P.: All I am saying is that if you want true disclosure it be not only by the industry but by the banks as well.

Co-Chairman Senator CROLL: Mr. Macdonald, from listening to you, I got the impression that the Scotia plan advertises that it is a 6 per cent loan.

Mr. MACDONALD, M.P.: In reply, may I say that I do not think it actually advertises that.

Co-Chairman Senator CROLL: They do not say that.

Mr. MACDONALD, M.P.: I think they go on the general public assumption that there is a maximum of 6 per cent. We had the President of Mutual Life here, who told us that the bank charges run between 9.8 per cent and 11.5 per cent.

Co-Chairman Senator CROLL: 10.5 per cent.

Mr. MACDONALD: Depending on how you figure it. It will generally be more than that.

Mr. MACDONALD, M.P.: Mr. MacGregor seemed to think that was fairly general.

Co-Chairman Senator CROLL: The limit is 10.56 per cent.

Mr. HOWARTH: I do not agree.

Co-Chairman Senator CROLL: That is the evidence given before the committee.

Mr. MACDONALD: If you were to use the actuarial method I believe you would find that the bank charges are higher than that.

Co-Chairman Senator CROLL: Mr. Macdonald, we went through this before at meetings of the Banking Committee and the experts were there and the result was that 10.6 was the maximum, for any form at all. It has not changed.

Mr. SAUNDERS: I would like to say, from the fact that this is a matter of some difference of opinion, as to whether it is 10.5, 11.6, 6 per cent, or, as some say, 9.4 per cent, that indicates that the dollar amount would be more meaningful.

Mr. MACDONALD, M.P.: Surely that it not the case in the examples given by Mr. MacGregor. It depended on the terms of each loan. But, given the same set of facts, presumably the same two individuals with the same mathematical competence would arrive at the same figure. This brings up a question I would like to ask Mr. Macdonald in connection with the remarks he made about Mr. Irwin's calculations. You referred to an error made by him, and I wondered if you could make available to the committee the working papers on which this conclusion was founded.

Mr. MACDONALD: I think it was an error of method rather than of mechanics and calculation.

Mr. MACDONALD, M.P.: I appreciate your volunteering to give the answer; but if it were made available to the committee it would be very helpful.

Mr. MACDONALD: A competent man like Mr. Irwin can go through this exercise and while allowing that an inaccuracy of an eighth of one per cent might be all right, in the example he used, he seems to have arrived at a figure which is $2\frac{1}{4}$ per cent different than most people would figure.

Mr. MACDONALD, M.P.: While on this question of interest rates or percentage rates for finance charges, I might just refer to the Royal Commission on Banking and Finance on page 206, which is about the retail finance market. I will read it in part:

For instance, in 1961 the effective annual charges of 17 companies on a standard new car contract varied from 12.5 per cent to 18.8 per cent, with most companies reporting rates from 13.5 per cent to 16 per cent; rates on a smaller consumer contract ranged from 16 per cent to 23 per cent.

Are the percentage rates upon which you are lending, the effective percentage rates, still in the same general area?

Mr. MACDONALD: We are not lending.

Mr. MACDONALD, M.P.: Upon which you are making credit available?

Mr. SAUNDERS: I think that competition is even keener than it used to be, and money costs have been fluctuating. Those are the two factors that affect the market. I would say there was pretty well the same structure, and where money costs have been lowered we have been able to bring down our rate.

Mr. MACDONALD, M.P.: Continuing on to page 207 of the Report of the Royal Commission—and this is talking about equipment financing:

Rates of interest, which vary from one company to another and with the size of the loan, appear to range from 10 per cent, and perhaps a little lower on large loans to good borrowers up to 16 per cent on loans of \$5,000 or less.

Why is there the difference of about 3 or 4 per cent as between retail and equipment financing?

Mr. SAUNDERS: Mainly because of the size of the transaction. The cost of credit is made up, as we have said, of the variance of the use of money, which is the cost of money to ourselves, and the question of expenses involved in administering that contract. For instance, to deal with \$200 per month costs no more than \$20 per month.

Mr. MACDONALD, M.P.: I was interested at the start this morning, Mr. Trudeau, in your statement that a dealer can in fact shop around to find various sources to dispose of his instalment paper.

Mr. TRUDEAU: That is correct.

Mr. MACDONALD, M.P.: Is that quite standard practice?

Mr. TRUDEAU: There is so much more of it today. A larger percentage of instalment paper is without dealer support, and where he might not shop his new car paper, he may find that as the risk increases he will look for sources for his used car paper, and not only shop that paper with the finance companies, but may call in the consumer loan companies and ask them to consider whether or not they would be willing to lend money to the individual, and they would say, "We will send someone down, if you would care to talk to him."

Mr. MACDONALD, M.P.: To what extent do wholly owned-sub-sidiaries which finance only the parent company's sales participate in the over all statistics for sales finance companies? Are they members of the association?

Dr. Jacques Singer, Research Director, Consulting Economist, W. A. Beckett and Associates: In our study for the Royal Commission we were able to get data from G.M.A.C.

Mr. MACDONALD, M.P.: In percentage terms could you estimate how much the participation would be at most?

Mr. MACDONALD: The business of G.M.A.C. would represent 25 per cent of the industry total.

Mr. MACDONALD, M.P.: In general terms is their participation in this type of operation increasing? According to the G.M.A.C. pattern, as time goes on, are they taking a bigger share of what is available?

Mr. MACDONALD: We endeavour to obtain business from General Motors dealers as we do from dealers in other products.

Co-Chairman Mr. GREENE: Mr. Singer?

Mr. SINGER: There are no official figures available.

Mr. MACDONALD, M.P.: None of these companies are members of your association; you are independents, is that right?

Mr. SAUNDERS: Some of them are not members. Generally speaking, the General Motors Acceptance Corporation is by far the largest of these, and it is not a member.

Co-Chairman Mr. GREENE: There is no allegation on your part that this association infringes anti-combine legislation?

Mr. SAUNDERS: You mean—

Co-Chairman Mr. GREENE: There is no allegation by your association?

Mr. MACDONALD, M.P.: I don't think that applies to services. If I could just refer to paragraph 33, of your submission, you mention that you have made a continuing study of all legislation bearing on consumer and business credit. I wonder if I could just take you in detail through bills which have been referred to this committee, and get your detailed comment on them. First, Bills C-13 and C-20. Am I right in assuming that you would have made some analysis of these bills?

Mr. SAUNDERS: I do not know them by numbers.

Mr. MACDONALD, M.P.: Bill C-13 would impose a provision requiring in any advertising that it shall indicate in such advertising what the total cost of such loan amounts to in percentage terms per annum. This is not only on the contracts but in the company advertising. I suppose you would say that is not in your area of business?

Mr. SAUNDERS: That is what we would say, except that our feeling is that percentage per annum in consumer credit type of transactions is not a good yardstick.

Mr. MACDONALD, M.P.: I know your point on that, but in fact you do not advertise?

Mr. SAUNDERS: We do not advertise.

Mr. MACDONALD, M.P.: The next is Bill C-23, which would provide a general regime for the control of consumer credit, and I think that we already know your answer on this one. Basically it requires that any agreement will state in writing the total amount of the unpaid balance on which interest is chargeable, the total amount of interest payable, and the percentage relationship between the two of them. The interest is not stated.

Mr. MACDONALD: Might we not miss a point there? In the suggestion of the interest form of disclosure, I rather assume that this is a matter to be entered into a contract at the time a contract is deemed signed. When a dealer and a customer have come to agree on the type of commodity the customer is going to buy, the colour, the size of the purchase agreed upon, the amount to be allowed for a trade-in, the amount that would then remain unpaid, and the finance charge to be paid by the customer, I wonder then what is the purpose to be served by entering into some column the interest per annum applicable?

Mr. MACDONALD, M.P.: There is some argument that it may enable you to go around to the chartered banks, presuming we had somewhat more accurate disclosure provisions there, and he would be able to compare the rates.

Mr. MACDONALD: At that moment he is at the point of consummating the transaction, and in 98 per cent of the cases he will sign his name if the salesman is a good salesman, regardless of what is entered there.

Mr. MACDONALD, M.P.: I think it is a fair objection that before he puts his name on the dotted line he will find out where he can get the money most cheaply.

The next one is Bill C-44, and that is regulating the use of bills of exchange given as collateral security with respect to off-store instalment sales. It really provides a moratorium period of three days. In other words, in the case of these high-pressure salesmen selling from door to door—and I shall not mention any names—who persuade the housewife to sign a contract, she is to be given three days to relent on that. To what extent do you finance, say, the door-to-door sale of pots and pans and that sort of thing?

Mr. SAUNDERS: I think those of us who have tried that have discontinued it.

Mr. MACDONALD, M.P.: You say it does not relate generally to your membership?

Mr. URIE: There are companies that do it.

Mr. SAUNDERS: They do get financed.

Mr. EVANS: Purely practical considerations have kept us out of this.

Mr. MACDONALD: The percentage of defaults is far too high.

Mr. URIE: But would you agree the objective of this bill is good?

Mr. E. Michael Howarth, Executive Vice-President, Federated Council of Sales Finance Companies: That is off-premises?

Mr. James Johnstone, Secretary and General Counsel, Canadian Acceptance Corporation Limited: What comparable protection is going to be given to the cash buyer? It is all very fine for a moratorium for somebody who has signed a conditional sale contract, but what about the one who gives a cheque?

Mr. MACDONALD: What about the man who is encouraged to go to the bank and borrow money or to go to the credit union and borrow money?

Mr. MACDONALD, M.P.: It would at least overcome part of the abuse, if not the whole thing.

Mr. JOHNSTONE: It has a weakness. The cash purchaser is being completely disregarded.

Mr. MACDONALD, M.P.: Well, half a loaf is better than none at all, I suppose.

Mr. EVANS: Go to the finance company and have three days to repent it!

Mr. MACDONALD, M.P.: You said it.

Co-Chairman Mr. GREENE: Are you offering that as a slogan?

Mr. MACDONALD, M.P.: Then there are the two bills, Bill C-51 and C-63. Bill C-51 is of particular interest in that it would stipulate that where a promissory note is given in connection with a retail credit instalment transaction it should bear across its face the words, "Given in a retail credit instalment transaction." As I understand it, the purpose of the bill is to make it possible from a legal standpoint for the purchaser to assert against any person to whom the bill may be discounted the equities that he could have asserted against his vendor. You stated earlier that promissory notes were used by some of your members. What, in your view, would be the effect of such a provision in this Bills of Exchange Act?

Mr. JOHNSTONE: The promissory note, from a legal point of view, is used for sundry reasons. For example, if you wanted additional endorsers or guarantors of payment on the transaction, if you take a promissory note in conjunction with a conditional sale contract it is much simpler to have an endorsement on the back of the note rather than to take a separate instrument of guarantee. To the extent that such a note is a negotiable instrument—and there is a real question, from the legal point of view, whether the promissory note taken in conjunction with a conditional sale contract is in fact a negotiable instrument as there are legal decisions that go both ways, and I defy any lawyer to say with certainty whether a promissory note taken in such circumstances is or is not a negotiable instrument—this makes for simpler documentation of the transaction. The trend of legal decision today would appear to obviate the necessity of making such an amendment to the Bills of Exchange Act.

Mr. MACDONALD, M.P.: Have you done any legal research as to the possibility of the effect of that, bearing in mind the decided cases?

Mr. JOHNSTONE: I think the transaction could be documented as well without the promissory note, but the promissory note is used by a number of member companies for several reasons. They pledge notes to banks to support their own borrowing. To what extent banks would be prepared to take conditional sale contracts as security is a very good question.

Mr. MACDONALD, M.P.: I wonder if Mr. Singer has considered the effect of that from the economic as opposed to the legal standpoint?

Mr. SINGER: I would say: No. It seems to me to be a legal point.

Mr. MACDONALD M.P.: Mr. Macdonald made a statement with respect to the effect of the Interest Act on mortgages, real estate mortgages. Would you recommend any changes in the Interest Act to make the requirements of that statute more meaningful?

Mr. MACDONALD: I believe if dollar disclosure were practised in that field a more meaningful method would be adduced to inform the customer of the cost of obtaining such credit. I believe that the Dominion Interest Act as it becomes applied tends to create some of the abuses which committees such as this will be dealing with. I believe bonuses and discounts and that sort of thing were partly created by the desire on the part of mortgage lenders to show as low a rate as possible while using other methods of obtaining additional income. I do not hesitate to suggest that interest disclosure would redound in the same way in our industry if we were faced with the same problem.

Mr. SINGER: There has emerged in the United States a very strong trend recently in mortgage re-financing where additional amounts are lent on a mortgage, say at $5\frac{1}{2}$ per cent, which are used as consumer credit. If you look at your interest rate it is 5 or $5\frac{1}{2}$ per cent to finance a car or a refrigerator. We would say this would be a very serious trend to have develop.

Mr. MACDONALD, M.P.: You say this is not a very good deal?

Mr. SINGER: In terms of simple interest it looks marvelous, but in total finance charges, say, on a \$3,000 automobile it might take perhaps an equal amount in interest, but whatever it is there is an inherent danger in transacting credit on the mortgage side for what is really consumer credit.

Mr. MACDONALD: All our contracts are drawn in such a way that the amount of debt that continues to exist is reduced until there is full repayment on the article being financed. The consumer has an equity which is maintained and built up during the life of the contract, and his assets continue to build.

Mr. MACDONALD, M.P.: Even with the increased use of salt on the highways?

Just two more questions. Firstly, with regard to recourse of paper. Can you give me any figures as to the percentage of paper with full recourse and the percentage non-recourse?

Mr. SAUNDERS: The percentage of the paper with full recourse is very small because full recourse is diluted considerably due to the fact that the finance company offers so-called dealer's protection.

Mr. MACDONALD, M.P.: There is an intermediate stage between the two, where they have repossession services?

Mr. SAUNDERS: Yes, the cost of bringing repossession back, or in the case where there might not have been insurance and the collateral is destroyed or where the collateral cannot be found or has been cannibalized. There are a number of instances of that type. Full recourse, as such, is wishful thinking nowadays; it does not really exist. Non-recourse is the opposite thing. Pure non-recourse is growing, but even where a contract is non-recourse there are certain warranties the dealer makes, such as: The sale took place; the merchandise was delivered—and sometimes there is an agreement as to assistance in re-marketing, if there is any re-marketing necessary.

Mr. MACDONALD, M.P.: So most of it falls into an intermediate area.

In paragraph 27 you referred to the question of education and the importance of the education function. You are probably familiar with the operation of the Consumers' Council in the United Kingdom and you are probably also familiar with the fact that perhaps with action by this Parliament it will be possible for both the federal and the provincial governments to inter-delegate authority over some of these disputed areas. What would your view be about a joint federal-provincial consumers' council which would have the purpose of, shall we say, educating the unwary, investigating the suspect and castigating the unscrupulous?

Mr. SAUNDERS: This question sounds rather like "Are you in favour of motherhood?" On the surface, such a committee or controlling body sounds very good. In practical terms, I, personally speaking and entirely as an individual, would prefer to see the general educational level raised whereby people would understand the type of transaction. To have policing bodies is not a good solution because it creates too rigid an atmosphere. Many people do not understand medicine or law or economics or electronics, or whatever industry there might be, and where they come in contact with these things they are completely ignorant. They are exposed to the "well-intentionedness" of the dispenser of that service. I would say that on the whole this industry has been very clean. There have been unfortunate incidents that have created publicity, and which rightly should be criticized, but in a number of those cases, had the second party to the transaction been a little bit more knowledgeable, he never would have gone into it. We can legislate men out of existence, but we cannot do away with them. We can legislate against illegitimacy and we will never do away with it. We can legislate against theft, and we will not do away with that. We can legislate against abuses of consumer credit, but if people are unwary when they enter into these transactions, we will never do away with that either. If we educate the people to distinguish between sensible business and what is unethical, then we will eliminate this type of transaction.

Mr. MACDONALD, M.P.: Let me ask another question as a person interested in Laurentide Finance. The Porter Commission pointed out that sometime about 1939 the consumer loan people approved the move by the Government to put the small loans business under regulations, and Mr. MacGregor gave the opinion that it has been beneficial for business and for the public. Surely the same might apply in the case of sales finance companies?

Mr. SAUNDERS: It might. I am not suggesting regulations *per se* are bad. I understood your former question to be would it be a good idea to have a regulatory body superimposed on the present system. The regulatory body to me has too rigid an administrative meaning to create a desirable end. But there are forms of legislation in effect in a number of the states of the United States where the sales finance industry is controlled to some extent. There are laws existing in other countries which, for instance, set the maximum rate for any transaction that may be entered into. If these rates are set at a reasonable level, and the onus is on the credit grantor to stay within those levels, then that may expose those who are exceeding that level. If they are set at an unreasonable level in terms of being too low, that difference which is being legislated out is going to go underground.

Mr. MACDONALD, M.P.: You say there is nothing wrong with a maximum *per se*, but it depends on how high it is set.

Mr. MACDONALD: Is it not true that the intention of the Small Loans Act of 1939 was to protect the necessitous borrower, the person who it was thought had no bargaining power but who must obtain money under duress? The maximum amount set there was \$300, so that in itself shows the kind of people

this act was intended to protect. We, on the other hand, have customers who make a down payment, and who go to purchase something under entirely different circumstances from those of the necessitous borrower.

The Co-Chairman Mr. GREENE: Any further questions? Senator Thorvaldson?

Senator THORVALDSON: I think any questions I had have been covered by Mr. Macdonald.

Mr. OTTO: I have a further question. The witness has said that the defaulting accounts compose a very small amount of the business. In other words you are not worried about the people who default on their accounts?

Mr. SAUNDERS: Oh, I wouldn't say that. If there was only one, we would worry about it. We are in the position of a financial intermediary. We have the responsibility to our customers, the public, who borrow money, and who use the credit which we extend, and we also have responsibilities to those institutions and individuals who supply the funds for us to operate. We operate on a very narrow margin, and while the number of accounts that default or become subjects of repossession, to which we referred earlier, are small, over the total volume of business which we transact, the amount of profit we make is very small as well. Most of us operate on an actual margin of less than one per cent of our turnover. If we lost that one per cent, or the number increased slightly from one to 2 per cent, we would be wiped out.

Mr. OTTO: In the brief and in your answers you have said the delinquent accounts are not of great importance. Most people want to pay and most people do pay. I wonder how your committee would consider legislation changing the bills and notes and other legislation to prohibit the collection of consumer credit accounts through court action.

Mr. SAUNDERS: I think we would consider it to be a poor piece of legislation.

Mr. URIE: I have just one or two more questions. If I may direct them to Mr. Macdonald. We know and appreciate your objection to the imposition of expressing the cost of the loan as a percentage. Bearing that in mind, and without discussing that further, do you believe there could be a formula devised which would be applicable to all credit-granting agencies, which, together with a common definition of all finance charges, would be included in arriving at the cost of a loan which would or which could be applicable throughout the whole industry?

Mr. MACDONALD: I am not sure that I understand your question, but I would make this statement; we as a council believe that the best uniform method of disclosure for all forms of credit is dollar disclosure.

Mr. URIE: I have accepted that, but what I am asking is this: If we decided that cost should be expressed as a percentage, and if a formula is devised to be applicable throughout the industry, and if the definition of cost to be included in determining that percentage were universal, do you think a workable arrangement could be worked out where this interest could be included in your rate charts?

Mr. MACDONALD: We think the movement of goods in Canada would be very adversely affected. We think there would be considerably less consumer credit being dispensed because of the way that such a requirement would inhibit business. We think that people would be dissuaded from using their dealer's plan and seeking plans elsewhere which, though appearing in certain terms to cost less, may, in fact, cost much more, and we think the public would become thoroughly confused.

Mr. URIE: I appreciate that, but my question is: Can it be done?

Mr. MACDONALD: We have an expert in that regard here.

Mr. URIE: Is there anyone who can answer that question?

Mr. INCH: To answer your question I will say that I think anything is possible, but if such legislation were introduced then regardless of what method was chosen you would have to introduce rigidities which would be to the detriment of the consumer vis-a-vis what he has today. Perhaps I can take an example of something that my company offers. In consideration of the customer's timing on buying and the timing on his income he has at the time he buys the option of up to 45 days from the date of his purchase to make his first payment. The cost of this is built in. He does not pay any more if he takes 31 days, 33 days or 35 days. You would either have to remove this option that he has and which is for his convenience, or you would have to be rigid and say: "No, you must make your first payment 30 days from the date you make your purchase".

Mr. URIE: In the dollar amount that you charge at the moment is there not an element included to cover that period of 45 days?

Mr. INCH: Perhaps on the overall or on the average, but this varies for individual customers whether they take 30 days, 33 days, or 42 days.

Mr. URIE: Could not the same thing be applicable to a percentage? Could it not be an overall average? In the proceedings of this committee there is an appendix that was included by Mr. Irwin which makes use of a chart of Niagara Finance Company, and Mr. Irwin added one further column to the chart.

Mr. INCH: That is right. He applies that to Niagara Finance and to an area of business that is under the Small Loans Act. This business is regulated and there is in it some rigidity, and no such flexibility is allowed. The customer must pay substantially equal monthly instalments.

Mr. URIE: Are these things not applicable to your industry?

Mr. INCH: Not at the moment, because we are not regulated.

Mr. URIE: Aside from the regulations, you have equal monthly instalments. There may be skip payments, but by and large you have equal instalments?

Mr. MACDONALD: No, not such as those classified under the Small Loans Act.

Mr. URIE: No, but Mr. Irwin said that this type of thing could be adapted to the skip payment plans and the seasonal payment plans.

Mr. MACDONALD: If it could then it would have been done. The act itself prohibits flexibility, and that is why it is not done.

Mr. SAUNDERS: I think the answer to the question at the moment is that seasonal payment plans are used at the customer's option, and it would be difficult to develop charts that would cover all the seasonal plans, and they would disappear. Whether that would be a great loss or not is something that only the customer knows.

The Co-Chairman Mr. GREENE: What percentage of your business is under seasonal payment plans?

Mr. SAUNDERS: It might run to a quarter.

Mr. INCH: I do not have at hand the national figures, but not too long ago we were working with the committee in Alberta on this question of disclosure, and we ran a little study and discovered, under the terms of our definition of an irregular transaction over the period we covered for that province that something like 28 per cent were irregular. Now, our definition of an irregular plan is one where the first instalment is made more than 45 days from the date of transaction, where there are skip periods, where there

are irregular amounts of payment, or where the final instalment is more than double the regular instalment. Technically, there would be many more plans that would be irregular, but these I am referring to are ones that require a procedure for calculating the charge not using the basic and equal monthly payment chart.

Mr. BINFORD: What class of purchaser takes advantage of the irregular contract?

Mr. INCH: Well, there are many kinds. We have mentioned farmers as a predominant group. Sometimes school teachers, fishermen and other seasonal workers take advantage of them. Many salaried people who know they are going to have a bonus at Christmas or at some other time of a certain amount like to make a substantial payment at that time. There are some people who buy out of season—for instance, they might buy boats and motors in the winter time and start paying for them in the summer. There are people who buy heating equipment in the summer and pay for it during the winter when they are using it. This is a sales feature that is used by merchants.

Mr. MACDONALD: There are also store promotions to persuade the customer to buy before Christmas and pay after Christmas, or for him to pay after the holidays.

Mr. HOWARTH: I might also mention that as part of the Winter Works Program this Council associated with the "Why Wait for Spring, Do It Now" program. Part of the effort was to hold out the attractiveness of buying now and deferring payment for two or three months. In this we consulted with the Department of Labour with whom we discussed the implementation of the program. This was a deliberate attempt to get people to commit themselves to purchasing something earlier than they actually needed it.

Mr. MACDONALD, M.P.: Would this be in respect of boats, and such things?

Mr. HOWARTH: No, the greater part of it was in respect of property improvements and appliances. However, there was a definite attempt to improve sales.

Co-Chairman Senator CROLL: If I understood you correctly, Mr. Macdonald, in reply to a question put to you by Mr. Urie you said that, if you have a uniform formula and uniform conditions for everyone by which the interest rate would be disclosed, people would buy less—that is, they would buy less if they knew what the interest rate was.

Mr. MACDONALD: I did not quite mean that, if that is what I said. I meant that people would be inclined to take a second look. We might take the example I used before the same committee—that of the purchase of a radio or a battery for a car. If a man is out on the highway and has to pay \$5 for a tow job he might decide to buy a battery for his car. The battery may cost him \$20, and he may have to pay for it in five monthly instalments, and may be charged an extra \$2. If somebody figures out that the rate of interest is 40 per cent per annum, then he may be dissuaded from buying the battery. The proposition looks more attractive to him when he considers that although it is a charge of 40 per cent it is only \$2 and he has to pay \$5 for the tow job. I think people will become thoroughly confused with pure interest rate.

Co-Chairman Senator CROLL: Mr. Macdonald, you said you thought he might take a second look. I am not expressing the views of the committee, but I should tell you that that is the underlying thought behind this committee. It is that he should take a second look.

Mr. SAUNDERS: Mr. Chairman, I think the second look is a desirable thing, but where the problem comes in is that the rigidities would of themselves discourage a certain amount of the flow of business. One of the reasons why

the rigidities would have to be overcome is that the penalty for making a mistake could be very costly. With respect to this 45 day period that we have talked about we build that into our charges, and it is averaged out, just as bad debts are built into the charges and averaged out. We assume at the time that a transaction is made that everybody is good; that everybody is going to pay at somewhere around the halfway point in the 45 days' period. If you have to start calculating that—and mechanically it is not impossible to calculate it—and you happen to make a mistake, and the mistake is serious enough—and we do not know where the definition of "serious" would lie, and if it is too broad the whole thing is meaningless—but if you happen to make a mistake and have to forego the total amount of the charge you have made then that is a strong deterrent against either making a mistake or making a transaction which is further complicated by these optional methods.

Mr. URIE: Surely, your dollar calculations are now determined by the application of percentages, are they not?

Mr. SAUNDERS: No.

Mr. URIE: How do you determine your dollar charges, then?

Mr. SAUNDERS: We assess the return per \$100 that we make available, and when we build up that charge—first of all, the most effective thing that sets that figure is the competition, and that is historical. If you sit down today wanting to build up a certain charge you would take into account the bare cost of the money to you, and then add to that such things as your overhead, the amount of work involved, the number of times you are going to have to make records, the amount of credit investigation that that particular amount is likely to cause—there are various factors that are being averaged.

Mr. MACDONALD, M.P.: When you are talking about the cost in dollars, you are really talking about percentage.

Mr. SAUNDERS: You could express it in percentage.

Mr. TRUDEAU: When you look at our rate of charge, you will find that the smaller balance items reflect a higher added on rate per \$100 than do the higher balance items. This is because, in constructing these costs, we are dealing with items which have to do with other than exposure of the amount of money in the transaction. Our actual amount of money cost is considerably less than the other costs.

Mr. URIE: But the opening of small accounts costs just as much as the others.

Mr. SAUNDERS: That is not entirely so. The handling of the transaction in many cases is the same. When you get into the larger amounts, the cost of investigation might be more.

Mr. URIE: There is legislation in existence in the State of California and in the State of New York which imposes rate maximums in the case of automobiles expressed in dollars, in the case of other consumer goods expressed as percentages. What are the views of your council in respect to legislation of that nature?

Mr. TRUDEAU: There is no technical problem in New York State with the kind of legislation there. It sets a ceiling which is reasonable. No one pays at the ceiling, because the ceiling rate is so high.

Mr. MACDONALD, M.P.: This is what was pointed out earlier.

Mr. TRUDEAU: In the case of a figure per \$100 financed, the going rate with a new car would be in the area of \$7 per \$100 financed per annum; and the finance companies charge a little less than that. There are late model cars which are in the area of about \$9 per \$100 financed; and there are older cars which are in the area of \$13 per \$100 financed. So the rate varies from \$7 to \$13 per

\$100 financed per annum. The rates are charged in the automobile industry according to the kind of car—a new car, a late model, or an older model. What we are trying to get at is the different size of the transaction. When you get into the older car area, you are down to \$300. Even \$12 per \$100 per annum on \$300 gives you only \$36 of income—against which we have to collect 12 instalments; we have to borrow the money; we have to check the credit; we have to produce a repossession, if there is to be one, we have to assume insurance risks, all for this gross income of \$36. I think most of us today are at the point where our branch expenses are in the area of \$2 per instalment, where prewar we were running branches for 30 cents per instalment.

Mr. URIE: In other words, your industry could operate under legislation of that type, quite nicely.

Mr. TRUDEAU: We could, as long as the rates were right, as long as we did not have to work on the rate ceilings, such as in the consumer loan business here, where the rate ceilings completely discourage business. There is an area where many of the consumer loans are not serviced, because the rates are too low.

Co-Chairman Senator CROLL: That will be in the case of loans under \$1,500.

Mr. TRUDEAU: I think that many people appearing before committees like this say that in the consumer loan field virtually everyone gets the maximum. We do, because those rates are the lowest in the industry. There is not a state in the United States which has a rate as low as this. We have had to learn how to operate with a relatively low rate structure. We must have a ceiling put in the legislation which will be realistic and within which we can operate.

Co-Chairman Mr. GREENE: Is it not a case that when a person tries to get a loan, it is a case of squeezing him into the higher rate.

Mr. TRUDEAU: No. When you are in the consumer business, there is quite a risk, and if a man needs only \$1,200 or \$1,300 and that is all he can pay, we do not want to give him any more.

Co-Chairman Mr. GREENE: It may be that it is among the less reputable practitioners, not represented here. There certainly is a tendency in some instances to try to force him out of the small loan area and into the uncontrolled area.

Mr. MACDONALD: The small loans rate in Canada is the lowest in the world.

Co-Chairman Mr. GREENE: You have voiced some concern as to economic effects of legislation in this area. That is something with which we are all concerned. Can you help the committee in any way by objective studies in this regard, apart from subjective opinion? Can you tell of jurisdictions in which there has been legislation, or a projection by economists in this area; or can you voice personal opinion as to your views?

Mr. MACDONALD: As a personal opinion, I feel that the Province of Manitoba and the Province of Alberta very wisely developed a select committee, comprised of people in the consumer finance industry, people who were merchants of goods using our services, as well as the staff of the Government of our province. We were able to sit down and discuss things that might be of mutual benefit.

Co-Chairman Mr. GREENE: But your organization has done no economic studies that you could present to this committee to help us in this regard.

Mr. MACDONALD: We have done a substantial amount of research to establish the per cent of personal disposable income being used in our industry in Canada, on the gross national product, and that sort of thing. We have established to our own satisfaction that the trends in this business are sound, that

people are buying within their incomes, that the relationship between consumer credit and personal disposable income, particularly in relation to our industry, is very sound.

Co-Chairman Mr. GREENE: That is not my question. In California, New York and some other states, and some European countries, they have legislation in these areas. I wondered whether your industry has done any objective economic surveys which would help this committee to see whether your view, that these may create economic conditions which are not favourable, is sound or whether it is not sound. Has your organization in fact done any objective surveys in this regard?

Mr. HOWARTH: I think what you are asking is, is there any economic survey where interest disclosure is the law. We know of none such. We can obtain information about jurisdiction where there is legislation providing for rate ceilings, but you are actually asking for a hypothesis, because there is no jurisdiction that we know of—despite some contradictory evidence that I understand has been put before this committee—where there is in effect an interest disclosure law that applies across the board.

There are variations, applying to certain small loans, but we would be hard put to produce a survey of any economic validity, without a test case. We could certainly—and I think you have had information on this—obtain information about the situation in New York and California, but interest disclosure is not there.

Co-Chairman Mr. GREENE: I think you have admitted that this does not have any detrimental economic effect, provided the ceilings are correct. I want to be fair about this, and so does the committee. The trouble about these subjective views as to the bogey of disclosure, is that this same type of fear was presented to committees in jurisdictions where ceilings were subsequently imposed, and which has not proved true.

Mr. HOWARTH: I think that while the ceilings, if they are realistic, do not disturb the industry, the one thing that would disturb us would be the absence of an opportunity for review. What might be good in 1965 might be quite a bad thing in 1967. We now have regulated rate situations in Canada where the existing rate structure is a constant source of complaint, turmoil and uncertainty. Our viewpoint would be that realistic ceilings, with a reasonable opportunity for review in the light of changing circumstances, would be a safeguard for the industry and for the consumer also. One of our real problems is the thought of a rate structure that becomes a sort of fixed structure.

Mr. MACDONALD: You have the problem which came into existence in Nebraska. I am sure you have studied it. There was some legislation which came to be enacted there, under which the grantors of credit became reluctant to move; and the movement of goods in that state slowed down some 35 per cent, and people went to other states to buy; because neither the credit grantors nor the subsequent purchasers of the contract would encounter the risks involved. This created an economic calamity in that state, caused by seemingly unwise legislation.

Co-Chairman Mr. GREENE: And your evidence is that this restricted the flow of trade to the extent of 35 per cent?

Mr. URIE: I should like to ask a question of Mr. Trudeau, getting back to the California and New York type of legislation. Why do they distinguish between automobile financing and other types of financing, in imposing a maximum in some cases of dollars, and percentages in other types of consumer goods?

Mr. TRUDEAU: Because traditionally the automobile rate charge has been constructed on a basis of new cars, late model and older, and even though we might occasionally have a new car transaction where the individual might have paid an 80 per cent downpayment and produced something on a \$500 basis, you have such an unusually good credit position then that you do not start to worry about whether or not that particular transaction will contribute its proper share of the fixed overhead on a fixed unit basis. You just take it. This is the way automobiles have always been merchandised. As you get into the other goods, they usually think in terms of around a 12 per cent add-on. (\$12 per \$100 per annum). I think that is what it is in New York State. That would be a fair enough deal.

Now, the problem you run into with the 12 per cent add-on is that I think they have already introduced something else, that they do not regulate the small balance, or that they permit a \$50 or \$25 minimum charge.

Co-Chairman Mr. GREEN: Thank you for your help and your attendance here, gentlemen. I hope you will not feel that you have been the accusers here, in a free system, the advertising system, which seems to bring out the facts and information more effectively than anything else. We are seeking help assiduously and sincerely and assure you that your presentations have been very helpful to us, Mr. Saunders.

Mr. SAUNDERS: Thank you very much, Mr. Chairman.

The committee adjourned.

APPENDIX "U"

Submission of

THE FEDERATED COUNCIL OF SALES FINANCE COMPANIES
TO THE SPECIAL JOINT COMMITTEE OF
THE SENATE AND HOUSE OF COMMONS
ON CONSUMER CREDIT

MARCH 8, 1965.

1. The Federated Council of Sales Finance Companies welcomes the opportunity to make a submission to your Committee and trusts that its contribution will further your studies of this important subject.

2. The Federated Council is the national association of sales finance companies operating in Canada. Its forty-eight members accounted for approximately 70% of the \$1,035 million of sales finance credit extended to consumers by this industry in 1964 and 90% of the \$463 million of instalment credit provided by these companies to business for machinery and equipment purchased during that period. In addition, the sales finance industry provided Canadian automobile dealers with specialized wholesale accommodation of \$2.1 billion during 1964. A list of the Council's member companies is appended to this submission.

3. In order to provide these services on a national scale, the industry maintains over 900 branch offices and currently employs approximately 7,000 people.

4. At the end of 1964, the sales finance industry accounted for approximately one-sixth of the total consumer credit outstanding in Canada. Additional figures showing the trend in outstanding consumer credit and the relative importance of the major types of credit grantors are shown in Table 1.

5. While your Committee is examining various aspects of consumer credit in Canada, we believe that it would be helpful if we provided some background information about the Federated Council and the scope of operations of the sales finance industry, in addition to discussing those issues in which the Committee may have a particular interest. To accomplish the first objective, we have provided your research staff with copies of the comprehensive brief which was submitted to the (Porter) Royal Commission on Banking and Finance. This document provides a detailed background study of almost every facet of our industry's structure and operations, and it should provide a factual basis for judging the manner in which our industry operates.

6. Among the various suppliers of consumer credit appearing before this Committee, the sales finance industry occupies a unique position. It is the only major institution in the field, which provides its services through smaller and locally-based Canadian retailers, thus enabling them to compete on equal credit terms with department stores and larger chain organizations. Much has been heard in recent years of the problems and needs of the small businessman. Legislative bodies, both Provincial and Federal, have passed laws and established special departments to assist the small businessman in various ways. Our industry is proud of the fact that it has been providing a vital credit service to small Canadian businessmen engaged in the retailing of autos, appliances, furniture and other major durables, for more than forty years—a service, we stress, that was, and is, just not available elsewhere. According to a recent survey, the sales finance industry currently provides a retail credit service to approximately 25,000 dealers and merchants throughout Canada.

7. Our primary function is to provide wholesale and retail financing for durable consumer and business goods. Wholesale financing is provided for a wide range of consumer goods, but is of greatest significance in the retailing of automobiles. It is a highly specialized form of financing, and informed estimates suggest that more than 90% of all the new motor vehicles sold to dealers in Canada (some 725,000 in 1964) are financed in this manner. In every year but one since 1953, the volume of wholesale credit accommodation extended has exceeded \$1 billion.

8. Retail purchase credit provides a convenient, point-of-sale type of credit financing of durable goods. These purchases may be classified according to the major purpose to which the goods are put, i.e., (1) Purchases made by consumers for non-business purposes, and (2) purchases made by businesses of revenue-producing commercial and industrial equipment. It is the first type of retail financing that will be of interest to this Committee, since it involves the extension of consumer credit. To put magnitudes into perspective, the following statistics will give you an idea of the extent of our retail financing operations: last year the sales finance industry purchased retail instalment contracts totaling \$1,035 million to finance the purchase of consumer durables, and it is estimated that approximately $1\frac{1}{4}$ million Canadians made use of the industry's services.

9. Our industry provides a financing service to dealers selling a broad range of consumer durable goods. The historical origin of our industry is closely associated with the mass marketing and financing of the passenger automobile (and, indeed, the financing of new and used passenger vehicles is still quantitatively the most important single consumer goods category we finance). Today we provide instalment financing for dealers in refrigerators, washing and drying machines, furniture, television sets, pleasure boats, home improvements, radio, stereophonic sound equipment, and a variety of other goods which enable millions of Canadians to have more comfort in their homes, more convenient transportation and more rewarding leisure hours. All of these purchases are free expressions of consumer choice, and our industry fulfills the role of supplying a significant share of the instalment credit required by the Canadian consumer. Instalment credit performs both a social and economic function among the vast majority of people who use it judiciously, and our industry provides an essential link in a mass distribution system by which thousands of dealers annually move over \$3 billion of durable goods to 19 million consumers at the point of sale.

10. To summarize our function in a few words we would like to emphasize that retail sales financing has two important characteristics not found in other types of credit. First of all, it is created mainly as a result of the sale of a durable good, involving mostly time-, labour-, and/or money-saving products for the consumer. There is no exchange of money between the purchaser and the credit grantor at the time of sale (other than the cash down payment). Secondly, as far as the sales finance company is concerned, it plays no direct role in the creation of this credit, and is brought into the picture only after the transaction has been completed and if the dealer decides to sell the instalment contract to a sales finance company. However, in the ordinary course of events, after a dealer and a sales finance company have decided to do business together, their relationship will be generally such that the dealer has a ready and willing buyer for the volume of sound instalment credit sales he creates.

11. Sales finance contracts are tailored to the requirements of individual purchasers and also reflect the selling policies of the dealer. They show wide variations in down payments, maturities, and the timing of instalment pay-

ments. The latter need not be equal, consecutive and regular payments, as they often accommodate seasonal patterns of income, as in the case of teachers, farmers and fishermen.

12. A dealer who sells an article on time includes in the total price of the transaction an amount to compensate for collecting the balance due by instalments instead of cash. The amount of this "finance charge" is agreed upon between the buyer and the seller and it is incorporated into the contract of sale as an integral part of the price of the article. The contract is the dealer's property, to do with as he determines for himself. He may keep it or he may sell it, but this does not affect the time price paid by the consumer. If he decides to sell it to a sales finance company, the terms of the sale of the contract are subject to negotiation and agreement between the parties, which are part of an overall relationship embracing a package of services between the dealer and the sales finance company. Taking a contract where there is an unpaid cash balance of \$1,000 and a finance charge of \$100 as an example, the dealer now owns a contract on which the purchaser has agreed to pay \$1,100. If the dealer decides to sell this contract, he will do so at the best price he can obtain. And he goes into a highly competitive market to look for the best price and terms; this may involve selling the contract to a sales finance company, or pledging it as collateral to secure a loan from other sources. The parties in this transaction must first agree on a price. In the normal relationship between sales finance companies and dealers, there will not be a separate negotiation for each particular contract, as the parties will have previously agreed upon a formula for establishing the price of the contract. Let us assume that the agreed price is \$1,010. The sales finance company may simply pay the dealer the \$1,010 and thus end the transaction. More generally, however, because of his outstanding direct and contingent liabilities, the dealer will receive only part of this amount, e.g. \$1,000, at the time of the sale of the contract. Payment of the remaining \$10 owed to him as part of the price of the paper will be deferred, and the amount set aside, or "reversed" in an account set up to the dealer's credit. This credit account, representing sums withheld from the proceeds of individual contracts has come to be called the reserve account, or the "dealer reserve". It is clear that this dealer reserve is merely a part of the purchase price of the paper, which except for the deferment arrangement, he would have received in cash at the time he sold the paper.

13. The basic legal instrument under which a sales finance transaction is conducted is a conditional sale contract. Based on its experience, the Council takes the position that all of the following information should be clearly stated on a conditional sale contract:

- (a) Total Cash Price
- (b) Down Payment and Trade-in (if any)
- (c) Unpaid Balance
- (d) Insurance Premium (if any)
- (e) Registration Fee
- (f) Amount to be Financed
- (g) Finance Charges
- (h) Total Deferred Balance
- (i) Number, Amount and Date of Instalments

With this information at his disposal, the consumer is in a position to make an intelligent choice either between a cash or a credit purchase, or among competing credit sources.

14. These contracts are completed in the presence of the customer, who is provided with a copy. When the completed contract is delivered to the finance company concerned, it is checked to ensure that all essential information has been included. In our opinion, the information contained in a completed contract provides the credit buyer with a clear, straightforward understanding of the obligations he has assumed in return for the benefits of immediate use and possession.

15. It is our view that the single, most important public policy issue surrounding the field of consumer credit, is the manner in which the finance charge is disclosed to the consumer. The tenor of many recent legislative proposals would suggest that the sales finance industry attempts to keep the consumer in ignorance of the cost of credit. Nothing could be further from the truth. We would like to emphasize that this Council and the industry it represents believe in the full disclosure of the cost of sales finance credit to the purchaser, and moreover, that we have followed such full disclosure practices for many years. The instalment contract forms used in our industry indicate clearly to our customers the difference between the cash and time sale price of their purchases, thus giving them an exact statement, in dollars and cents, of the cost of financing the instalment purchase. The provision of such information is universal practice throughout the industry and, as noted earlier, our contract forms have been designed to give full effect to this intention. Our experience has convinced us, that the most meaningful disclosure of finance charges, from the consumer's standpoint, is one which expresses these charges in "dollars and cents". The consumer is paid in dollars and cents, his budget is expressed in dollars and cents and he approaches any new expenditure, involving regular instalment payments, with an eye to the dollar and cents effect on his overall financial position. In the same way, he can and does compare the difference between a cash or credit purchase on the basis of full disclosure of the finance charge expressed in dollars and cents. After careful consideration, we have concluded that any consumer, provided with this fundamental information, can make an intelligent and reasonable choice, not only between a purchase on a cash or credit basis, but also among the various competing sources of credit which are available to him.

16. Having stated our support for disclosure in dollars and cents, the following comments on the issue of "interest rate" disclosure are submitted for your consideration: We believe that legislation making "interest rate disclosure" mandatory would tend to drive the cost of credit underground. Rather than engage in costly, time-consuming calculations, with the prospect of penalties should they prove to be inaccurate, many retailers would simply adopt a "one-price" policy. Examples can easily be cited in which the finance charge in dollars is obviously reasonable in relation to the transaction, but where a simple annual interest rate equivalent appears to be exorbitant. This, too, would lead to the burying of financing costs in the price of the article, and there are many items such as used cars, exclusive trade name merchandise in large stores and upholstered furniture, which do not lend themselves to direct price comparison.

17. Those who advocate interest rate disclosure argue that knowledge of the rate being charged will assist and enable the consumer to make a wise choice between or among alternative credit purchases. As the following example will show, emphasis on the rate being charged can mislead the consumer and result in an incorrect choice.

18. The problem lies in the fact that a seller of a combination of goods or services and credit may combine the charges in any manner he chooses. Assume two stores are offering refrigerators and credit services that are identical in

quality in every respect. Assume further that they are offered on twelve-month contracts. If the following are the contract terms, which store should the consumer favour?

	Store A	Store B
Cash Price	\$ 310	\$ 325
Finance Charge	30	20
Total Price	340	345
Annual Rate of Charge (constant ratio method)	17.9%	11.4%

It is clear that the consumer who makes his decision on the basis of the interest rate will buy the wrong refrigerator and lose \$5 on the transaction. Because of the ease with which finance charges may be buried in the prices of goods and services sold on credit, focusing attention on the interest rate may confuse the consumer and provide opportunities for exploitation by some unscrupulous retailers.

19. The argument that the consumer should know the "true" cost of his credit is based fundamentally on the belief that there is an excessive use of consumer credit and excessive charges for its use. Some proponents of the rate form of statement believe that if consumers only "realized" the cost of their credit, they would either buy for cash or postpone purchases. Probably relatively few consumers are torn between buying for cash or buying on credit. If they are to acquire the product or service, they must either use credit or postpone the purchase. There is really no evidence that the "shock effect" of the cost of credit will be any greater under the rate form of statement than under the dollar form. Disclosure of both rate and dollars may result only in confusion. In the transaction shown below, which will make the greater impression on a consumer who wishes to finance the \$2,400 unpaid balance on a new car over three years: to be told that the finance rate is 11.7 per cent per annum or to be told that the finance charge is \$432.00?

Cash price	\$ 3,000
Down payment	600
Unpaid balance	2,400
Finance charge	432
Total balance including charges	2,832
Annual rate of charge (constant ratio method) ..	11.7%

If the consumer is considering postponing the purchase of the car for three years, it seems just as helpful for him to know that he will save \$432 as to know that he will avoid a finance rate of 11.7 per cent. Of course, in many cases the consumer's only choice is between buying on credit or postponing the purchase.

20. To date, proposed legislation at Federal and Provincial levels has largely been directed towards the consumer credit provided by department stores and other retailers, many of whom use the services of our industry. In contrast, the credit extended by chartered banks and credit unions has often been explicitly exempted. If the purpose of such legislation is to enable the consumer to make intelligent comparisons among competing credit sources, we fail to see how this will be accomplished. Chartered banks will generally express their loan rate in terms of interest and a service charge. Credit Unions use still another method. The consumer will thus be forced to fall back on a comparison of the cost of credit in dollars and cents. Any legislation which discriminates among the various sources of consumer credit will not work to the advantage of the consumer.

21. The Committee will be interested in the progress of disclosure legislation in other countries, where consumer credit is an important contributor to the high standard of living which its citizens enjoy. In the United States, thirty states have enacted dollar disclosure legislation, whereas none has enacted per annum interest rate disclosure legislation. In view of the importance of consumer credit in the economy of the United States and the established body of experience with credit legislation at state levels, the absence of a single enactment of interest rate disclosure is significant.

22. We also draw the Committee's attention to the report made in July, 1962, by the President of the Board of Trade to the British Parliament concerning the protections afforded by law to the British consumer. This report, known as the Moloney Report contains the following paragraph, headed "Ignorance as to Interest Rate":

Another suggestion springing from the consumer's supposed ignorance of the amount of the additional charge levied for credit was that the difference between the hire-purchase and the cash price should be declared to the hirer as a percentage rate of annual interest on the average sum outstanding over the repayment period. This would help only those hirers who study their agreements, and we credit persons who take the trouble to do this with the capacity to observe and appreciate the difference between the hire-purchase and the cash price. Such persons would not be assisted by a further statement of the interest rate. We observe, however, that the consumer does not appear to be incapable of distinguishing between different scales of hire-purchase charges, since there are some dealers who inflate the stated cash price so as to make hire-purchase terms offered by them appear to be more attractive. We condemn this practice but we do not know how to stop it; any more than we know how to stop verbal misrepresentations of the interest rate. To regard the hire-purchase charges as merely an interest rate on a loan is in any event fallacious, as they must also cover the costs of setting-up the agreement, of collecting and recording payments and of bad debts.

23. In common with all responsible segments of the business community engaged in the extension of consumer credit, the sales finance industry advocates full disclosure of meaningful information concerning the cost of credit. We strongly endorse the submission made to this Committee by the Canadian Chamber of Commerce in October, 1964, which accurately reflects the views of Canadian business on this subject.

24. While we have argued in favour of dollar disclosure, we feel it is important to observe that blind faith in the dollar form of disclosure can also mislead the consumer. All or some portion of the cost of credit can be buried in the price of the article, just as is true of the cost of any other related service, such as "free" delivery. The only way in which consumers can get the most for their money in a credit purchase is to hold the length of the contract constant and then to compare the total dollar cost of the product and the credit service. In comparing two or more alternative offers, preoccupation with either the dollar or interest cost of the credit service could lead to an unwise choice, whereas comparison of the total dollar cost of the transaction will immediately disclose the most advantageous purchase. Only in the unlikely instance of both cash prices being identical would an interest rate comparison be meaningful, whereas full disclosure of the dollar cost of credit alerts the customer to its presence and permits a valid comparison, regardless of any variance in the cash price.

25. In the Report of the Royal Commission on Banking and Finance the statement is made that there is a strong case for disclosure in both forms (dollars and effective rate of interest) and that consumers could hardly suffer from having more information. We do not share this opinion and feel that disclosure of the total finance charge in dollars is not only necessary and sufficient, but superior to dollar disclosure plus rate disclosure in any form. When a statement of charges in the rate form is added to the dollar form, consumers face two measures of value, one expressed in dollars and the other in a percentage of its equivalent. A dual pricing system would hinder, rather than help, consumers' credit decisions. It fosters trickery and deception and is, therefore, opposed by this Council. Legislation enforcing interest rate disclosure would be a disservice to the Canadian consumer.

26. Some of the witnesses who have appeared before your Committee have expressed concern over the difficulties which can accompany an excessive use of consumer credit. The studies conducted by this Council for the Royal Commission on Banking and Finance suggest that only a small percentage of all sales Finance transactions become delinquent, and settlement is generally accomplished with one or two reminders on the part of the sales finance company. Only a small fraction of these delinquent accounts ever reach the stage where legal measures, such as repossession, become necessary. In its 1964 Report, the Royal Commission on Banking and Finance made the following comment with regard to this issue:

Our studies indicate that by and large Canadians manage their finances with greater wisdom than appears to be popularly believed. Most households appear to have a reasonable pattern of assets in relation to their family needs, income and risk-taking ability. Most, too, have made sensible use of instalment and other credit to acquire physical assets that yield them high returns, not only in financial terms, but in terms of convenience and ease of household living. (Page 31)

27. The Council is convinced that education in the proper use of consumer credit is an important function of this industry. In this area, the Council and its members co-operate with high schools, universities, newspapers, radio, television, and Better Business Bureaus throughout the country. Each year several thousand booklets are distributed. These publications explain the different types of credit available and prescribe a few simple and safe rules. By following these rules, the vast majority of Canadians avoid difficulty and regularly enjoy the important benefits which accompany intelligent and reasonable use of consumer credit. An example of the co-operation referred to above occurred recently in Toronto, where the Better Business Bureau distributed 6,000 copies of a poster advocating and endorsing the Council's "Wise Use of Credit" rules. This poster was displayed on employee notice boards throughout the metropolitan area.

28. The Federated Council also believes that study and research in consumer credit should be expanded in Canada. In comparison with the United States, for example, very little research has been undertaken at the university level and very few Canadian economists have concerned themselves with this subject. In an effort to stimulate independent study at Canadian universities, the Council has established an annual competition with prizes for the best undergraduate and graduate essays and theses dealing with consumer credit.

29. During previous meetings of your Committee, reference has been made to the degree of foreign ownership of the sales finance industry. The question of foreign ownership and control in the Canadian sales finance industry should be examined at two levels:

(a) As a purely structural characteristic, and

(b) Whether it is any way related to the industry's use of foreign capital markets as a source of funds.

30. Among the ten largest sales finance companies operating in Canada, six are domestically controlled, while four are subsidiaries of U.S. parent companies. Among the three largest members of the industry, the split is two Canadian companies, and one U.S. subsidiary. It should also be noted that among the many smaller companies, financial control is preponderantly in Canadian hands.

31. The extent to which access to foreign capital markets has played a role in the financing of sales finance companies in the years 1953 to 1961, was documented in the brief submitted by this Council to the Royal Commission on Banking and Finance, in September, 1962 (Table 6. 11, pp. 154-155). The figures pertaining to the ten largest companies show the following situation at the end of 1961:

FOREIGN AND DOMESTIC SOURCES OF FUNDS
10 LARGEST SALES FINANCE COMPANIES
END OF 1961, MILLIONS OF CANADIAN DOLLARS

Types of Funds	Outstanding Amounts End of 1961; Millions of \$				Per Cent of Total		
	Canadian	U.S.	Other	Total	Canadian	U.S.	Other
Bank loans.....	95	14	—	109	87	13	—
Short term notes.....	323	84	2	409	79	21	—
Long term notes and debentures..	494	146	—	640	77	23	—
Common stock.....	73	8	3	84	87	9	4
Preferred stock.....	37	3	—	40	93	7	—
Advance from parent or subsidiaries.....	—	10	—	10	—	—	—

32. The use of United States capital markets is not specifically related to the issue of foreign control or ownership. In some instances, Canadian-owned sales finance companies have sold their short-term notes, and long-term notes and debentures in the United States, and their access to such funds is basically a question of size and credit standing in financial markets, rather than ownership ties to U.S. parent companies. Also, in the case of several Canadian subsidiaries of U.S. companies, their entire sources of funds are from Canadian financial markets. The Royal Commission on Banking and Finance summarized the record as follows:

There is no evidence that, as between the larger companies, American-owned firms fare particularly well in times of tight credit conditions: larger Canadian firms, and even a few smaller ones, have easy access to the New York market and make use of this source whenever they find it attractive to do so. (Royal Commisison on Banking and Finance, 1964 Report, Page 220).

In summary, we believe that neither the presence of foreign ownership and control, nor the extent to which Canadian sales finance companies have used foreign capital markets, constitute a significant area of concern for financial policy.

33. The Federated Council has maintained a continuing study of all legislation bearing on consumer and business credit. We have co-operated with Federal and Provincial legislators and officials, and we have always attempted to provide an informed and responsible viewpoint on these policy issues which affect our industry. In addition to the Royal Commission on Banking and Finance, we have participated in the inquiries conducted in Nova Scotia and Ontario. Representatives from the Council serve on the committees established in Alberta and Manitoba, to consider disclosure and other matters pertaining to consumer credit. In our appearance before you today we have endeavoured to present views and information which will merit careful study and consideration by your Committee, and we will do our best to co-operate with and assist the Committee on any matters which may arise in the ensuing discussion.

Respectfully submitted,

Federated Council of Sales Finance Companies.

TABLE 1
CONSUMER CREDIT OUTSTANDING IN CANADA END OF YEAR

1953-1964
(Millions of dollars)

Year	Sales Finance Companies	Small Loan Companies	Department Stores	Other Retail Dealers*	Chartered Banks All Other Personal Loans	Credit Unions	Other Credit**	Total	Index—(Total) 1953=100
1953	516	176	167	457	308	129	228	1,981	100
1954	492	215	186	499	351	151	247	2,141	108
1955	599	279	227	524	441	174	278	2,522	127
1956	756	356	244	554	435	226	307	2,878	145
1957	780	362	262	564	420	258	340	2,936	151
1958	768	401	282	579	553	320	352	3,255	164
1959	806	484	314	601	719	397	375	3,696	187
1960	828	549	368	592	857	425	401	4,020	203
1961	756	594	401	605	1,030	516	422	4,324	218
1962	801	714	427	612	1,183	579	448	4,764	242
1963	874	810	456	631	1,432	669	462	5,334	269
1964(E)	1,000	880	480	650	1,770	770	478	6,028	304

*Excluding charge accounts of motor vehicle dealers whose credit is extended mainly to business rather than consumers.

**Includes: Life insurance company policy loans, Quebec Savings Banks loans not secured by mortgages; balances outstanding on oil company credit cards since the end of 1955.

(E)—1964 Year-end figures are estimates.

NOTE: Details may not add to totals because of rounding.

SOURCE: Dominion Bureau of Statistics and Bank of Canada.

TABLE 1 (cont'd)
CONSUMER CREDIT OUTSTANDING IN CANADA END OF YEAR

1953-1964

(Percentage distribution)

Year	Sales Finance Companies	Small Loan Companies	Department Stores	Other Retail Dealers*	Chartered Banks All Other Personal Loans	Credit Unions	Other Credit**	Total
1953	26.0	8.9	8.4	23.1	15.5	6.5	11.5	100.0
1954	23.0	10.0	8.7	23.3	16.4	7.1	11.5	100.0
1955	23.7	11.1	9.0	20.8	17.5	6.9	11.0	100.0
1956	26.3	12.4	8.5	19.2	15.1	7.8	10.7	100.0
1957	26.1	12.1	8.8	18.9	14.1	8.6	11.4	100.0
1958	23.6	12.3	8.7	17.8	17.0	9.8	10.8	100.0
1959	21.8	13.1	8.5	16.3	19.5	10.7	10.1	100.0
1960	20.6	13.7	9.1	14.7	21.3	10.6	10.0	100.0
1961	17.5	13.7	9.3	14.0	23.8	11.9	9.8	100.0
1962	16.8	15.0	9.0	12.8	24.8	12.2	9.4	100.0
1963	16.4	15.2	8.6	11.8	26.8	12.5	8.7	100.0
1964 (E)	16.6	14.6	7.9	10.8	29.4	12.8	7.9	100.0

(E)—1964 Year-end figures are estimates.
For notes see previous page.

FEDERATED COUNCIL OF SALES FINANCE COMPANIES
LIST OF MEMBERS AS OF MARCH 1, 1965

Acadia Acceptance Corp. Ltd., Quebec, P.Q.
Ace Finance Corp. Ltd., Montreal
Acme Acceptance (London) Ltd., London
Alliance Credit Corp., Montreal
Associates Acceptance Co. Ltd., Toronto
Atlantic Acceptance Corp. Ltd., Oakville, Ont.
Atlas Acceptance Corp. Ltd., Toronto
Auto-Marine Acceptance Corp. Ltd., Edmonton
Baker Acceptance Corp. Ltd., Toronto
British Acceptance Corp. Ltd., Vancouver
Canadian Acceptance Corp. Ltd., Toronto
Citizens Finance Co. Ltd., Windsor
The Commercial Acceptance Corp. Ltd., Montreal
Commercial Credit Corp. Ltd., Toronto
Credit Acceptance Corp. Ltd., Vancouver
Credit Nova Inc., Shawinigan, P.Q.
Credit St. Laurent Inc., Trois Rivières, P.Q.
Danforth Discount Ltd., Toronto
Delta Acceptance Corp. Ltd., London
Empire Acceptance Co. Ltd., Vancouver
Founders Acceptance Corp. Ltd., Winnipeg
Frontier Acceptance Corp. Ltd., Willowdale, Ont.
General Finance Corp. Ltd., Calgary
Independent Acceptance Ltd., Oakville, Ont.
Industrial Acceptance Corp. Ltd., Town of Mount Royal, P.Q.
Labrador Acceptance Corp., Montreal
Laurentide Financial Corp. Ltd., Vancouver
Linval Acceptance Corp. Ltd., Hull, P.Q.
Middlesex Acceptance & Discount Co. Ltd., London
Neptune Acceptance Corp. Ltd., Toronto
Norac Finance Corp. Ltd., Montreal
Ocean Company Ltd., Windsor, N.S.
Pacific Finance Acceptance Co. Ltd., Toronto
Penn Finance Ltd., Winnipeg
Phenix Finance Inc., St. Hyacinthe, P.Q.
Prudential Finance Corp. Ltd., London
Public Finance Corp. Ltd., Winnipeg
Raleigh Acceptance Corp. Ltd., Willowdale, Ont.
Redisco of Canada Ltd., Toronto
Robertson Finance Co. Ltd., New Westminster, B.C.
Signature Finance Ltd., Edmonton, Alberta
Standard Credit Corp., Montreal
Traders Finance Corp. Ltd., Toronto
Triad Acceptance Corp. Ltd., Toronto
Tri-State Acceptance Co. Ltd., Winnipeg, Man.
Union Acceptance Corp. Ltd., Toronto
United Dominions Corp. (Canada) Ltd., Toronto
Western Acceptance Corp. Ltd., Vancouver, B.C.



Second Session—Twenty-sixth Parliament

1964-1965

PROCEEDINGS OF
THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON
CONSUMER CREDIT

No. 18

TUESDAY, MARCH 30, 1965

JOINT CHAIRMEN

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

WITNESSES:

Canadian Consumer Loan Association: Mr. J. T. Wood, President; Mr. J. S. Land, Past President; Mr. E. J. Hendrie, Past President; Mr. R. A. Mackenzie, Member of the Association; Mr. R. G. Miller, Member of the Association, Mr. Helmut Miller, Member of the Association; Mr. R. W. Stevens, Counsel; Mr. F. C. Oakes, Public Relations Chairman.

APPENDIX

V—Brief from the Canadian Consumer Loan Association

ROGER DUHAMEL, F.R.S.C.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1965

THE SPECIAL JOINT COMMITTEE OF THE SENATE
AND HOUSE OF COMMONS ON CONSUMER CREDIT

Joint Chairmen

The Honourable Senator David A. Croll

and

Mr. J. J. Greene, M.P.

The Honourable Senators

Bouffard
Croll
Gershaw
Hollett
Irvine

Lang
McGrand
Smith (*Queens-
Shelburne*)
Stambaugh
Thorvaldson
Vaillancourt—11.

Messrs.

Basford
Bell
Cashin
Chrétien
Clancy
Côté (*Longueuil*)
Crossman
Drouin

Greene
Grégoire
Hales
Irvine
Jewett (Miss)
Macdonald
Mandziuk
Marcoux
Matte
McCutcheon
Nasserden
Otto
Ryan
Saltsman
Scott
Vincent—24.

(Quorum 7)

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Monday, March 9th, 1964.

"On motion of Mr. MacNaught, seconded by Miss LaMarsh, it was resolved, —That a Joint Committee of the Senate and House of Commons be appointed to continue the enquiry into and to report upon the problem of consumer credit, more particularly but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto;

That 24 Members of the House of Commons, to be designated by the House at a later date, be members of the Joint Committee, and that Standing Order 67(1) of the House of Commons be suspended in relation thereto;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the records thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto; and,

That a message be sent to the Senate requesting that House to unite with this House for the above purpose, and to select, if the Senate deems it advisable, some of its Members to act on the proposed Joint Committee."

LÉON-J. RAYMOND,

Clerk of the House of Commons.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 11th, 1964.

"Pursuant to the Order of the Day, the Senate proceeded to the consideration of the Message from the House of Commons requesting the appointment of a Joint Committee of the Senate and House of Commons on Consumer Credit.

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Lambert:

That the Senate do unite with the House of Commons in the appointment of a Joint Committee of both Houses of Parliament to enquire into and report upon the problem of consumer credit, more particularly, but not so as to restrict the generality of the foregoing, to enquire into and report upon the operation of Canadian legislation in relation thereto:

That twelve Members of the Senate to be designated by the Senate at a later date be members of the Joint Committee;

That the minutes of proceedings and the evidence received and taken by the Joint Committee on Consumer Credit at the past Session be referred to the said Committee and made part of the record thereof;

That the said Committee have power to call for persons, papers and records and examine witnesses; and to report from time to time and to print such papers and evidence from day to day as may be ordered by the Committee; to sit during sittings and adjournments of the Senate; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(Senate)

Extract from the Minutes and Proceedings of the Senate, Wednesday, March 18th, 1964.

“With leave of the Senate,

The Honourable Senator Connolly, P.C., moved, seconded by the Honourable Senator Brooks, P.C.,

That the following Senators be appointed to act on behalf of the Senate on the Joint Committee of the Senate and House of Commons to inquire into and report upon the problem of Consumer Credit, namely, the Honourable Senators Bouffard, Croll, Gershaw, Hollett, Irvine, Lang, McGrand, Robertson (*Kenora-Rainy River*), Smith (*Queens-Shelburne*), Stambaugh, Thorvaldson and Vaillancourt; and

That a Message be sent to the House of Commons to inform that House accordingly.

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.”

J. F. MacNEILL,
Clerk of the Senate.

ORDER OF REFERENCE

(House of Commons)

Extract from the Votes and Proceedings of the House of Commons, Tuesday, March 24th, 1964.

"On motion of Mr. Walker, seconded by Mr. Caron, it was ordered,—That the Members of the House of Commons on the Joint Committee of the Senate and House of Commons to enquire into and report upon the problem of Consumer Credit by Messrs. Bell, Cashin, Chrétien, Clancy, Coates, Côté (*Longueuil*), Crossman, Deachman, Drouin, Greene, Grégoire, Hales, Jewett (Miss), Macdonald, Mandziuk, Marcoux, Matte, McCutcheon, Nasserden, Orlikow, Pennell, Ryan, Scott and Vincent; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Wednesday, June 10th, 1964.

"On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Irvine be substituted for that of Mr. Coates on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof."

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, July 20th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Basford be substituted for that of Mr. Deachman on the Joint Committee on Consumer Credit.

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Tuesday, July 28th, 1964.

On motion of Mr. Walker, seconded by Mr. Rinfret, it was ordered,—That the name of Mr. Otto be substituted for that of Mr. Pennell on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON J. RAYMOND,

Clerk of the House of Commons.

Extract from the Votes and Proceedings of the House of Commons, Monday, November 23rd, 1964.

On motion of Mr. Rinfret, seconded by Mr. Regan, it was ordered,—That the name of Mr. Saltsman be substituted for that of Mr. Orlikow on the Joint Committee on Consumer Credit; and

That a Message be sent to the Senate to acquaint Their Honours thereof.

LÉON J. RAYMOND,
Clerk of the House of Commons.

REPORTS OF COMMITTEE

Senate

The Honourable Senator Gershaw for the Honourable Senator Croll, from the Joint Committee of the Senate and House of Commons on Consumer Credit, presented their first Report, as follows:—

WEDNESDAY, April 29th, 1964.

The Joint Committee of the Senate and House of Commons on Consumer Credit make their first Report as follows:

Your Committee recommend:

1. That their quorum be reduced to seven (7) members, provided that both Houses are represented.
2. That they be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.

All which is respectfully submitted.

DAVID A. CROLL,
Joint Chairman.

With leave of the Senate,

The Honourable Senator Gershaw moved, seconded by the Honourable Senator Cameron, that the Report be now adopted.

The question being put on the motion, it was—

Resolved in the affirmative.

House of Commons

WEDNESDAY, April 29th, 1964.

Mr. Greene, from the Joint Committee of the Senate and the House of Commons on Consumer Credit, presented the First Report of the said Committee, which was read as follows:

Your Committee recommends:

1. That its quorum be reduced to seven Members, provided that both Houses are represented.
2. That it be empowered to engage the services of counsel, an accountant and such technical and clerical personnel as may be necessary for the purpose of the inquiry.
3. That it be granted leave to sit during the sittings of the House.

By unanimous consent, on motion of Mr. Greene, seconded by Mr. Gendron, the said report was concurred in.

The subject matter of the following Bills have been referred to the Special Joint Committee of the Senate and House of Commons on Consumer Credit for further study:

Senate

TUESDAY, March 17th, 1964.

Bill S-3, intituled: An Act to make Provision for the Disclosure of Finance Charges.

TUESDAY, March 31st, 1964.

Bill C-3, An Act to amend the Bankruptcy Act (Wage Earners' Assignments).

Bill C-13, An Act to amend the Small Loans Act (Advertising).

Bill C-20, An Act to amend the Small Loans Act.

Bill C-23, An Act to provide for the Control of Consumer Credit.

Bill C-44, An Act to amend the Bills of Exchange Act and the Interest Act (Off-store Instalment Sales).

Bill C-51, An Act to amend the Bills of Exchange Act (Instalment Purchases).

Bill C-52, An Act to amend the Interest Act.

Bill C-53, An Act to amend the Interest Act (Application of Small Loans Act).

Bill C-63, An Act to provide for Control of the Use of Collateral Bills and Notes in Consumer Credit Transactions.

THURSDAY, May 21st, 1964.

Bill C-60, intituled: An Act to amend the Combines Investigation Act (Captive Sales Financing).

MINUTES OF PROCEEDINGS

TUESDAY, March 30, 1965.

Pursuant to adjournment and notice the Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 11.00 a.m.

Present: The Senate: Honourable Senators Croll (*Joint Chairman*), Ger-shaw and Hollett, and

House of Commons: Messrs. Greene (*Joint Chairman*), Bell, Clancy, Hales, Irvine, Macdonald, Mandziuk, McCutcheon, Nasserden, Otto, Ryan, Saltsman and Scott—16.

In attendance: Mr. J. J. Urie, Q.C., Counsel and Mr. Jacques L'Heureux, C.A., Accountant.

On Motion of Mr. Macdonald, it was Resolved to print the brief submitted by the Canadian Consumer Loan Association as appendix V to these proceedings.

The following witnesses were heard:

Canadian Consumer Loan Association: Mr. J. T. Wood, President; Mr. J. S. Land, Past President; Mr. E. J. Hendrie, Past President; Mr. R. A. Mackenzie, Member of the Association; Mr. R. G. Miller, Member of the Association; Mr. Helmut Miller, Member of the Association; Mr. R. W. Stevens, Counsel; Mr. F. C. Oakes, Public Relations Chairman.

In attendance but not heard was: Mr. F. S. Picard, Past President.

On Motion of Mr. Otto, it was Resolved that a newspaper article by Ron Haggart entitled "‘A Pack of Lies’ said Phil Glanzer" be tabled.

At 1.20 p.m. the Committee adjourned until Tuesday next, April 6th, at 10.00 a.m.

Attest.

Dale M. Jarvis,
Clerk of the Committee.

THE SENATE

SPECIAL JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS ON CONSUMER CREDIT

EVIDENCE

OTTAWA, Tuesday, March 30, 1965.

The Special Joint Committee of the Senate and House of Commons on Consumer Credit met this day at 11 a.m.

Senator David A. Croll (*Co-Chairman*) in the Chair. J. J. Greene, M.P., (*Co-Chairman*).

Co-Chairman Senator CROLL: Appearing today is the Canadian Consumer Loan Association. I will ask for a motion to have the brief printed.

A motion was adopted that the brief prepared by the Canadian Consumer Loan Association be printed in the report of the proceedings.

(*See appendix "V"*).

Co-Chairman Senator CROLL: Just for your information, the Social Services of the Anglican Diocese of Montreal will be the next organization to be heard, and that will about conclude the hearings, as far as we know.

We have with us today Mr. J. T. Wood, who is the chairman of the delegation and he will introduce the gentlemen who are with him.

Mr. J. T. Wood, President, Canadian Consumer Loan Association: Honourable chairmen, honourable senators and members: my name is James T. Wood. I am appearing on behalf of the Canadian Consumer Loan Association. I am president of the association, and executive vice-president of Household Finance Corporation of Canada.

Immediately on my right is Mr. R. W. Stevens of the firm of Blake, Cassels & Graydon. This firm acts for the Canadian Consumer Loan Association. Next is Mr. J. S. Land, president of Niagara Finance Company Limited, and a past president of the Canadian Consumer Loan Association. To his right is Mr. E. J. Hendrie, vice-president of Beneficial Finance Company of Canada and a past president of the association.

Next is Mr. F. C. Oakes, executive vice-president of Lombank Finance Limited, and Public Relations Chairman of the association; Mr. F. S. Picard, president of Lucerne Finance Corporation Limited, and a past president of the association.

In addition, we have Mr. R. G. Miller, Mr. H. Miller and Mr. R. A. MacKenzie, who are technicians. I am sure they would be glad to help in any way they can.

Co-Chairman Senator CROLL: Mr. Wood has a short statement that he will read to the committee instead of reading the brief.

Mr. WOOD: I would just like to say that in our brief we have attempted to cover the area as completely as we could, but if there is anything we are unable to answer today or which you would like developed more fully we

would appreciate the opportunity of making a further submission to you, possibly in writing, at a later date.

Mr. HALES: Mr. Chairman, do you want us to ask questions on each paragraph, as we go along, or save them until it is completed?

Co-Chairman Senator CROLL: Save them until it is completed, please.

Mr. WOOD: The summary of our brief reads:

1. The membership of the Association is composed of 54 companies licensed under the Small Loans Act. As at December 31, 1964, these companies held over 95% of the outstanding loans covered by the Act.

2. In many respects borrowers from small loans licensees differ from customers of other lenders. Generally speaking they have lower incomes and fewer real assets than those who borrow from banks or other lending institutions where tangible security is very important in considering borrowers' eligibility to obtain loans. Those borrowers who lack readily marketable assets and who are in a relatively weak bargaining position need the service provided by responsible lenders under a suitable regulatory law.

3. The Small Loans Act of Canada is an excellent example of such a law. The Act provides maximum charges on consumer loans which are higher than those ordinarily permitted for commercial loans, in recognition of the higher administrative costs inherent in making large numbers of small instalment loans to a broad cross-section of the population. The charges permitted are, however, lower than those prescribed by any consumer loan legislation in the United States. The Act regulates lenders in making and collecting loans and provides for licensing, inspection, reporting, and penalties to assure compliance. Canadian licensed lenders not only accept these regulations but support them wholeheartedly and you will remember that Mr. K. R. MacGregor, the former Superintendent of Insurance, testified before this Committee that the only complaints received were found to be the result of accidental errors made in the branch offices by clerks.

4. The Small Loans Act was passed in 1939 and was amended in 1956 to increase the ceiling under regulation from \$500 to \$1,500. The figures show that 89% of all loans made by licensed consumer loan companies and their affiliates in 1963 were loans made for original amounts below \$1,500. It is also significant that statistics compiled by the Association indicate that approximately 79% of loans made in amounts over \$1,500 by these companies and their affiliates were made to borrowers with annual incomes in excess of \$5,000. Borrowers with incomes over \$5,000 have access to a number of alternative sources of cash loans and generally have more assets, greater stability, and are more experienced in business matters. They are better qualified to shop for credit and to select loans which, in all respects, meet their requirements without need for further restrictive regulations. It is the opinion of consumer lenders that the \$1,500 ceiling of the Small Loans Act already provides the protection required by those small sum borrowers who are less experienced in business dealings.

5. Our managers are engaged exclusively in the making of consumer loans and they are specialists in budgeting and money management counselling. We believe that the availability of this kind of helpful advice has contributed to the continuing increase in the number of borrowers who prefer to deal with consumer loan companies despite ever-increasing competition from other lending institutions. Consumer loan companies usually maintain office hours which coincide with those observed by the local retail community or shopping centre. This is, of course, a great convenience to customers whose hours of work would make it inconvenient for them to visit lenders' offices in generally observed office hours.

6. On the subject of disclosure of the cost of credit, the position of licensed consumer lenders is somewhat different from that of most other credit grantors. The Small Loans Act not only regulates maximum rates of charge but also specifies how the charges must be calculated. All Association members charge the maximum rates under the Act as they feel that these rates are the minimum at which a satisfactory service can be provided. As has been mentioned previously, the rates prescribed are lower than those permitted in any consumer loan legislation in the United States.

7. From the day-to-day experience of loan managers, we know that our customers want to know "How much will the loan cost?" and "How much are the monthly payments?" This is not surprising when one considers that in virtually every other business transaction of concern to our customers, the price of the goods or services is expressed in dollars.

8. Promissory notes for loans made under the Small Loans Act show the monthly interest rate and the annual interest rate for each of the three different rate segments prescribed by the Act. In addition, they show the dollar amount of the loan actually received by the customer as well as the number and amount of the monthly payments. Since there are no bonuses or other charges of any kind, the borrower can easily determine the cost of the loan in dollars. Experience of Association members in dealing with thousands of borrowers clearly shows that it is the cost of the loan in dollars that is of most interest to consumer loan customers. Based on this experience, in making loans over \$1,500 which are not covered by the Act, Association members reveal in their contracts the dollar cost of the loan.

9. It is our opinion that the expression of consumer loan charges as per cent per annum would be more confusing than helpful to many of our customers. There is general confusion among our customers now when they learn that 24% per annum on our loans equals \$13.46 per \$100 of loan rather than \$24.00 as they have assumed. If simple interest were such an informative method then surely it would not be necessary to use the dollars and cents method as well. It can only be concluded that the dollar cost disclosure is considered necessary to remove the confusion which results from the simple interest method.

10. In the testimony of Mr. Douglas D. Irwin before this Committee on February 23, 1965, it was alleged that this Association said it was impossible to disclose finance charges as a rate per cent per annum. We would like to take this opportunity to correct this misunderstanding. Subject to certain basic assumptions and one qualification, there is no question that members of this Association could disclose charges on loans in excess of \$1,500 as a rate per cent per annum. The basic assumptions are that the finance charges will not be deemed to include any rebate calculation, delinquency charge or search and registration fees and that the loan will be repaid in accordance with its terms. The one qualification which we have relates to loans involving irregular or skip payments, the terms of which are negotiated to meet the convenience of special kinds of borrowers such as farmers, fishermen and other small businessmen whose income flow is such that they cannot conveniently repay on a basis of equal monthly payments.

11. It is said that one of the principal merits of cost disclosure in terms of simple annual interest is to permit comparability between the charges of various credit grantors on a common basis. Whether disclosure is made in terms of dollar cost or as an annual interest rate, contracts are only comparable when all conditions including rate, default charges, prepayment penalties, legal fees, bonuses and length of contract are considered. Furthermore, where any

lender requires, as a condition of the loan, that a sum of money be held on deposit or that all payments required to be made are not applied to the loan, the effect of these requirements on the cost to the borrower should be included in the disclosure of the cost of loan. Unless any disclosure legislation applies to all credit grantors including banks, credit unions, sales finance companies, retail stores and consumer loan companies, and in addition, every possible element of cost, then the legislation would be ineffective and would fail to achieve the desired comparability.

CONCLUSIONS

1. This Association strongly favours full disclosure of the cost of credit to the consumer. However, for all the reasons expressed in the brief and this summary, the Association believes that such disclosure should be in terms of dollars and cents rather than per cent per annum.

2. It is our opinion that \$1,500 ceiling in the Small Loans Act should be retained for the measurable future because we consider this size of loan adequate to provide protection for the consumer borrower. Loans over \$1,500 are usually made to people of more substance who are able to bargain for rates and conditions without need for restricting regulations.

Co-Chairman Senator CROLL: If it meets with the approval of the committee, I would suggest that Mr. Urie should take 10 or 15 minutes to start and then the members of the committee can join in with their questions.

Mr. URIE: Mr. Chairman, Mr. Wood, a number of the questions I was about to ask have been answered in the summary you have given us, and which I, like the other members, only received this morning. However, there are some questions arising from the summary and from the brief which you may care to answer for me. You mention in your summary that the membership of your Association is 64 companies holding 95 per cent of the outstanding loans. Your Association also includes organizations which are in the business of lending money in sums in excess of \$1,500?

Mr. WOOD: Yes.

Mr. URIE: Could you give us some figures of the members who are operating in both fields?

Mr. WOOD: I would not be absolutely certain about that, but I would think that all members lend both under the act and over the act.

Mr. URIE: How many are in the sales finance field in addition to both lending fields?

Mr. WOOD: Probably at least 50 per cent, and certainly all the major companies.

Mr. URIE: And do these organizations operate out of the same offices, and carry on business in each field out of the same office?

Mr. WOOD: Yes.

Mr. URIE: In respect to the small loans and the unregulated larger loans, do they keep separate books covering each type of loan so that you can determine the profits arising from each particular category, do you know?

Mr. WOOD: I could not answer that, at least not as far as all the companies are concerned, but certainly in our own company we do have a record. We know the costs and we know the rates we charge. We could separate them without any difficulty.

Mr. URIE: As a matter of practice do other companies follow that?

Mr. J. S. Land, President, Niagara Finance Company Limited; Past President, Canadian Consumer Loan Association: If I may answer that question, one of the requirements of the Small Loans Act is that companies licensed under the act are required to submit a return to the Department of Insurance annually. This return breaks down relative working expenses and so forth on various kinds of business. In other words the small loans business is segregated from loans above the act and from conditional sales transactions.

Mr. URIE: It allots the expenses as between the separate types of business?

Mr. WOOD: Not entirely—as between the small loans—the loans under the Small Loans Act. I am not certain all companies would necessarily separate the sales finance from business outside the act.

Mr. URIE: I see.

Mr. WOOD: The loans under the act must be separated.

Mr. URIE: Now, as between the small loans portion and the other two portions of the allocation of costs—is that supervised by the Superintendent of Insurance?

Mr. WOOD: Yes, sir.

Mr. URIE: Now, you make your changes for life insurance, as I understand it, as a separate item in your contracts?

Mr. WOOD: That is correct.

Mr. URIE: Are any of your companies affiliated with life insurance companies, or do you have life insurance companies within your organization?

Mr. WOOD: None of the small loan licencees that I am aware of are, but there are some companies in the same general orbit. There are subsidiaries of parent companies that are insurance companies.

Mr. URIE: Have you any information you can file with the committee in respect of this?

Mr. WOOD: The question is whether any small loan company *per se* is related to an insurance company.

Mr. URIE: I really mean any of your companies—a company engaged in small business loans along with other large loans.

Mr. WOOD: I could not answer that off the cuff without checking all the members, but we shall be glad to file a statement.

Mr. URIE: Will you file a statement, please?

Mr. WOOD: Yes.

Mr. URIE: Now, I had the occasion to read the brief that was filed by your association with the Porter Royal Commission in which the statement was made at that time that 65 per cent of the loan business was done by two companies which are wholly-owned Canadian subsidiaries of United States companies. Is that figure still accurate?

Mr. WOOD: No, as of 1963 it is 55 per cent.

Mr. URIE: This is what we wish to know. Can you tell me the number of your members that are wholly-owned subsidiaries of American or other foreign companies?

Mr. WOOD: Of American or other foreign owned companies? I would not be able to answer that accurately, but again I can make that information available to you.

Co-Chairman Senator CROLL: Mr. Wood, I recall a statement made by Mr. MacGregor before the Senate's Banking and Commerce committee when a company was changing its name to Beneficial from whatever other name it had—what was the other name?

Mr. WOOD: Personal Finance.

Co-Chairman Senator CROLL: Yes. He said at that time, and I recall it quite vividly even though it may be two years ago—how long ago was it?

Mr. E. J. Hendrie, Vice-President, Beneficial Finance Company of Canada: We made the change in 1956.

Co-Chairman Senator CROLL: At that time he said that 90 per cent of the loans were in the orbit of the two companies. Do you mean that from 1956 to 1963 it has now gone to 55 per cent?

Mr. WOOD: I am surprised that at that point it was 95 per cent, but that is possible. I would have to check that for accuracy's sake, but it is possible.

Co-Chairman Senator CROLL: But in the light of that statement you now say it is 55 per cent?

Mr. WOOD: That is right.

Mr. URIE: The same two companies?

Mr. WOOD: Yes, sir.

Mr. URIE: Now, at page 5 of your brief you have a table showing the small loans made by licencees during the period 1958 to 1963. This table shows the number of loans, the total amount loaned, and the average size of the loans made. Would it be possible for you to file with this committee a similar table showing the same information for loans over \$1,500?

Mr. WOOD: We do not have such information, Mr. Urie. There is no way in which we could possibly get all the people who lend money over \$1,500 to report to our association. No such statistics are available. We know the difference between the total amount of loans outstanding under the act and the total outstanding in the consumer loan industry, but we have no breakdown, nor would we have any way of getting it.

Mr. URIE: These figures do not come from your own sources?

Mr. WOOD: No, these come from the Department of Insurance.

Mr. URIE: Now, at page 4 in paragraph 11 you say in the second sentence:

It is even more important to note that figures of companies which held over 86 per cent of the total large loan business in 1963 show that only about 11 per cent of borrowers took loans of more than \$1,500.

What about the other 14 per cent of the companies? Are they solely in the large loan business?

Mr. WOOD: Actually, this figure resulted from the fact that we attempted to get the members of our association to give us some of the information in respect of loans over \$1,500. While not all answered, we did receive answers from a group that was able to give us this information. You will note that companies which held 86 per cent of the large loan business in 1963 answered the question.

Mr. URIE: The other 14 per cent did not?

Mr. WOOD: That is correct.

Mr. URIE: Do you have any similar figures to those in table 1 for the loans between \$1,000 and \$1,500? Do you have them broken down to that extent?

Mr. WOOD: No, we have not broken it down by loan size.

Mr. R. A. MacKenzie, Technician, Canadian Consumer Loan Association: It would be in the Department's report.

Mr. URIE: Perhaps you would read those into the record. There is some suggestion that there is little lending done between \$1,000 and \$1,500.

Mr. MACKENZIE: Comparatively little lending.

Mr. URIE: Yes. That is why we would like this information.

Mr. MACKENZIE: This is from the report of the Superintendent of Insurance for 1962, which is the latest report issued. Loans of \$100 and less amounted to \$54,069.

Mr. URIE: From what page are you reading?

Mr. MACKENZIE: From page 64. \$100.01 to \$200, \$185,180; \$200.01 to \$300, \$183,162; \$300.01 to \$400, \$151,657; \$400.01 to \$500, \$68,040; \$500.01 to \$600, \$143,295; \$600.01 to \$700, \$87,130; \$700.01 to \$800, \$84,388; \$800.01 to \$900, \$68,393; \$900.01 to \$1,000, \$201,619.

Mr. URIE: That is the largest single group?

Mr. MACKENZIE: Yes. \$1,000.01 to \$1,100, \$33,882; \$1,100.01 to \$1,200, \$18,110; \$1,200.01 to \$1,300, \$21,705; \$1,300.01 to \$1,400, and here it drops very sharply to \$4,526; and \$1,400.01 to \$1,500, \$1,999. Those are the figures for loans made during 1962, totaling \$1,304,155.

Mr. URIE: The pattern is likely to be pretty much the same for 1963 and 1964, would you suggest?

Mr. MACKENZIE: I would say so.

Mr. URIE: The largest single group seems to be between \$900 and \$1,000, and the figures vary below that.

Mr. MACKENZIE: Yes.

Mr. URIE: Now, the loan ceiling under the Small Loans Act was amended in 1956 to permit loans under the act up to \$1,500 from a former ceiling of \$500. At the same time there were certain reductions in rates, and graduated rates were put in. Do you feel, Mr. Wood, that the results that were desired at the time of the amendment to the Small Loans Act have, in fact, been achieved?

Mr. WOOD: You are talking about the desires of Parliament at the time?

Mr. URIE: That is right.

Mr. WOOD: I suppose they have. The rate has been reduced, which I believe was probably the objective at the time. That has been achieved, and service is being given, certainly in the loan area up to \$1,000. However, it has not been given broadly in the area between \$1,000 and \$1,500, because that is the area in which the lenders consider the income received is not adequate. The rate of 6 per cent for that portion of the loan is not sufficient to attract them into the field. They do make some loans up to \$1,200. In the case of my own company, we go to \$1,222, so this may reflect a fair amount of loan account between \$1,200 and \$1,300, but actually it is very close to the cut-off point of \$1,200. To this extent I do not think that the act achieved what was desired.

Mr. URIE: And that is solely because the rate—

Mr. WOOD: The rate is just too low, in the opinion of the lenders, to give a broad service.

Mr. URIE: At the time of the hearings in 1956, having read over the testimony that was given at that time, there were certain reservations by a number of consumer lenders and money lenders, that they might be driven out of the market entirely, or in fact the profits would be reduced to such an extent that they might not be able to continue in business successfully. In fact, have your profits deteriorated in the manner in which you anticipated?

Mr. WOOD: Profits have deteriorated but we have not been driven out of business, simply because we have changed our business. To my knowledge, there is not a company which is operating in exactly the same way today as they were in 1956. We have moved up into large loans, \$2,500; we have moved

into sales finance; and into other areas, to try to recoup what was lost by the rate reduction under the act.

Mr. URIE: But in fact, the figures put before this committee by Mr. MacGregor during his testimony, the rate of profit as he analysed it, has not declined appreciably in the small loans section. There was an error in that testimony—

I am referring to page 61, volume 2 of the proceedings before this committee.

Mr. WOOD: The industry net profit expressed as a percentage of average outstandings, was as follows. In 1958, for all licencees, the income was 3.6, as a percentage of average loan account. In 1959 it was 3 per cent, in 1960 2.8 per cent, in 1961 2.5 per cent, in 1962 2.2 per cent. I do not yet have the figures for 1963 and 1964 as the reports have not yet been issued, but I would anticipate they have declined even further.

Mr. URIE: Is this for small loans alone, sir?

Mr. WOOD: That is correct.

Mr. URIE: That must be related, I would think, sir, to the growth in the loans made during that period, to make a comprehensible figure, should it not? In other words, at the same time that your profits were decreasing with a number of your loans, the volume of your loans was rising, so that the actual dollar amount of profit—

Mr. WOOD: This is related to average outstandings, to the amounts of loans that you have on the books.

Mr. URIE: I see. On the loans over \$1,500, what is the average rate of return, what is the average charge made?

Mr. WOOD: You may say there is a great deal of competition over \$1,500. We have made the point in our brief and in our summary, that there is very little competition under the act, simply because there is no room to manoeuvre. Outside the act, there is a great deal of competition and rates range from 1 per cent per month to 2 per cent per month. The average might be in the area of 1½ per cent per month. There is considerable competition in this area, the unregulated area, and this is because the rate is not controlled and we are able to manoeuvre within it.

Mr. URIE: When you say it goes as high as 2 per cent, is that 2 per cent on larger loans, or depending upon the credit risk of the individual borrower?

Mr. WOOD: This particular company that charges this rate will be flexible in individual cases with individual borrowers. One person may pay 2 per cent per month and another person something less.

Mr. URIE: What is the average throughout the industry?

Mr. WOOD: I would say about 1½ per cent.

Mr. URIE: On the larger loans, are the charges calculated monthly on an add-on basis, a discount basis, or on a declining balance system?

Mr. WOOD: They are calculated monthly either on an add-on or on a discount basis.

Mr. URIE: As opposed to the declining balance system under the act. Yes, Mr. Chairman?

Co-Chairman Senator CROLL: Mr. Hales has some questions. Let us break in and then come back again.

Mr. HALES: In paragraph 3 of your brief, you say:

The charges permitted are, however, lower than those prescribed by any consumer loan legislation in the United States.

Is there anyone in this delegation who might give us a brief rundown as to the experience in the United States, whether it has been rejected or adopted, and what companies are for it or against it, or something with respect to experience in the United States? I always feel that history and our experience of other countries is very useful to us in formulating our opinions here.

Mr. WOOD: We will deal with your question in two parts. First of all, as to whether there is some person here from the United States, we are fortunate in that we have Mr. Robert Miller. Mr. Miller is a solicitor, he is on the staff of Beneficial Finance of the United States and he has made a special study of the legislation in the United States. He will be able to answer any question you might put in this regard.

Mr. R. G. Miller, *Beneficial Finance Company of Canada*: Is this pertaining to disclosure in the United States, the relative cost?

Co-Chairman Senator CROLL: What was the question again?

Mr. HALES: First of all, has it been adopted in the United States and what states have adopted it? Have they had recent studies or surveys made there, or any results from that, that would be of benefit to us?

Mr. WOOD: Do we misunderstand the question? Are you talking of disclosure?

Mr. HALES: Yes.

Co-Chairman Senator CROLL: I think the question asked was—you read that portion in which you said that costs here were lower than in the United States. I thought you asked for confirmation of that, to begin with.

Mr. HALES: Yes.

Mr. R. G. MILLER: Mr. Helmuth Miller is more familiar with that situation.

Mr. HELMUTH MILLER: I think we can state categorically that the rate of charge for small loans under the act in Canada is much lower than in any single state in the United States.

Mr. HALES: What states have legislation in effect?

Mr. HELMUTH MILLER: Appendix "B" of our brief deals in detail with respect to—

Mr. WOOD: Excuse me, you are talking about "this type of legislation". I want to be certain that you are asking the correct question. Are you referring to the rate of charge?

Co-Chairman Senator CROLL: It is in appendix B of the brief before us. What is your second question, Mr. Hales?

Mr. HALES: What about the retail organizations and the users of credit? Have they made a survey in the United States, are they for or against it?

Mr. R. W. Stevens, *Counsel, Canadian Consumer Loan Association*: This again is disclosure legislation that you are referring to?

Mr. HALES: Yes.

Mr. WOOD: I think this is somewhat mixed up. Do you wish Mr. Miller to answer regarding legislation in the United States on the disclosure law? Did you ask that question, or do I misunderstand you?

Mr. HALES: Yes, that is the starting off point.

Mr. R. G. MILLER: No state in the United States has a general disclosure law requiring the statement of an actual rate per cent per annum as the sole criterion. There are two states which have a type of general disclosure law—Hawaii and New Hampshire.

Referring first to the State of Hawaii, the applicable section says:

Finance charge expressed in terms of dollars and cents or the percentage that the finance charge bears to the total amount to be financed expressed as simple monthly or annual rate.

In New Hampshire, the applicable section of the legislation says:

Any person engaged in the business of extending credit shall furnish to each person to whom such credit is extended a clear statement in writing setting forth the finance charges expressed in dollars, rate of interest, or monthly rate of charge, or a combination thereof, to be borne by such person in connection with such extension of credit as originally scheduled.

Now, in the States of New Mexico and Nebraska under the legislation comparable to this Small Loans Act of Canada, the charges are expressed as they are by licensees under the Canada Small Loans Act. That is, in New Mexico, the first bracket would be 3 per cent monthly and 36 per cent per annum, and in Nebraska $2\frac{1}{2}$ per cent per month and 30 per cent per annum. In the State of Wisconsin where there is small loans legislation and also a consumer discount law, there is also a large loan law, under the consumer discount law, section 1309, which provides for discount and fee as the sum of the charges; it requires that the annual rate of interest be stated on the loan papers and given to the customer.

In the State of Hawaii a discount rate is also permitted, and there again the interest is stated as a percent per annum. So in those two states there is this requirement.

Mr. HALES: Somewhere in the brief I think I read that the United States has had a committee similar to ours, meeting for over 5 years, with reams and reams of proceedings, and they have been unable to come to any definite decision as to the value of disclosure. Am I right on that?

Co-Chairman Senator CROLL: I think that is right. They have not come to a decision, or to the point of a bill. I think it is fair to add that both President Kennedy and President Johnson have recommended the bill, although they have not been able to get it out of committee.

Mr. OTTÖ: Are we going to be at this for five years?

Co-Chairman Senator CROLL: I hope not.

Mr. HALES: I suppose it is reasonable that after 18 meetings one should be able to come to a decision.

Mr. MANDZIUK: Mr. Chairman, the three lenders set up in the brief are banks, credit unions and loan associations. Am I correct in saying that credit unions are the only ones that disclose their rate in interest?

Mr. WOOD: May I answer that, Mr. Chairman, and say that I am not aware that interest rates are disclosed by the credit unions on an annual basis, and I question also whether if indeed they do disclose all costs on an annual basis. You are probably aware that it is a reasonably common practice in credit unions to do one of two things; first, to require that a certain sum of money be held on deposit as a condition of the loan. For example, if you borrow \$1,000 you might receive only \$900 or \$800. You pay the interest rate on the entire \$1,000 and get a deposit rate on the amount you have on deposit. There is quite a variation between the rate you receive on deposits and the rate you pay for the loan itself. The second thing is what is called the Wabash plan, and that is an arrangement where all the money you are repaying is not directed to the payment on the loan, but a portion is directed towards savings.

For instance, you might pay a \$55 a month payment, of which \$50 would go to retire the loan and \$5 to build savings. This would be a condition of the loan.

Now, no person could agree more than I that saving is a most commendable thing, but I think it should at least be reflected in the loan costs. It would be a real problem if the credit unions attempted to disclose their actual cost on a simple annual interest rate, bearing in mind that sums of money on deposit increase under the Wabash plan.

I make this statement, not because I have been able to subpoena and interrogate credit unions, but this is information we have received on a very wide, across-the-country basis, from customers in our branch offices.

Mr. MANDZIUK: I would not argue with you, Mr. Wood, because we have not the time, but you have given me an answer. My second point is to point out that our whole inquiry is centered around disclosure. You are not the first that has come in with a statement that disclosure in dollars is preferable to disclosure in interest. We have heard explanations from others. However, I would like to hear from you and have on record, what advantage there is dollarwise and percentagewise to you as a lending institution. I have made use of your facilities from time to time, and I hope that I do not have to come back in the future.

However, taking into consideration what you have mentioned on page 4 of the submission, where you have the rates set out, the default charges, legal fees, bonuses, and so on, is it possible, in your opinion, if such legislation were enacted, to disclose all this interestwise for the benefit of the consumer?

Mr. WOOD: Let me say that anything mathematically is possible in this day of computers, and that these answers can be obtained. Whether they can be obtained and still give adequate service to the customer is another question. It is important to point out that when you have obtained them—and there will have to be additional costs to do so—what have you achieved? The customer has not asked for this. I am not aware of any particular customer demand for information on an interest rate basis. When Mr. MacGregor testified before this committee some time last June, he was asked: "Are there complaints from customers that charges are disclosed in dollars and cents rather than in interest?" His answer was, "Not to my knowledge." So apparently there is no broad outcry, as far as I can tell. I see few letters to the editor, from the public. My own experience after 27 years in this business is that it is dollars and cents that the customer wants. Now, can we do it? We have tried to make this clear in our summary, which I just read, that under a certain set of circumstances we certainly can do it.

Co-Chairman Senator CROLL: As a matter of fact, Mr. Wood, you are doing it now.

Mr. WOOD: We are doing it now, Mr. Chairman, under the act.

Mr. MANDZIUK: I realize that the customer probably has not asked specifically that the disclosure be made interestwise or dollarwise.

Mr. WOOD: He wants it dollarwise.

Mr. MANDZIUK: He wants it so that he can compare, in all of your 54 companies, when he is shopping around for a \$500 loan, and unless you have a uniformity of rate, as to what it would cost with one company as compared to another, over some period of time, and so forth—that is all the customer wants, Mr. Chairman.

Co-Chairman Senator CROLL: Waiting to ask questions are Mr. Macdonald, Mr. Bell, Mr. Otto, Mr. Clancy, Mr. Scott and Senator Hollett, with a limit of five minutes each.

Senator HOLLETT: May I speak first, Mr. Chairman, because I have to leave. Supposing I agree on a \$100 loan. What would I pay at the end of the year?

Mr. WOOD: You will have paid \$113.52.

Senator HOLLETT: And that is 24 per cent?

Mr. WOOD: That is 24 per cent.

Senator HOLLETT: How do you figure that? You say everything is possible in mathematics.

Mr. WOOD: If you borrow \$100, and, let us say, pay \$6 in a year, then that would be 6 per cent per annum; but if you repay each month on the unpaid balance, so that you have paid off one half the loan in six months, then the true simple annual rate is approximately double the dollar cost. So if it was \$6, but you paid monthly, the actual interest rate would be close to 13 per cent per annum. This is what is so desperately confusing. I face this all the time in my company.

Senator HOLLETT: That is why I asked the question; but that does not seem clear to the ordinary person like myself.

Mr. WOOD: Well, this is the problem. People say, "What do you charge?" If you say "2 per cent a month or 24 per cent per annum," they say, "Then I have to pay 24 dollars?", to which we reply, "No, you don't, you only pay \$13.52." In every instance, I have to go through this same explanation, and the only thing you can do to clarify it is to quote dollar cost.

Mr. MACDONALD: Have you or any member of your association taken legal opinion as to the Ontario Unconscionable Transactions Relief Act under your operation?

Mr. WOOD: I do not know in what respect you mean. Mr. Stevens might be able to answer that question.

Mr. STEVENS: You are referring to the recent judgment of the Supreme Court of Canada?

Mr. MACDONALD: I am assuming whichever jurisdiction the act has been passed under. What, in your opinion, is the effect of that statute on companies operating under the Small Loans Act, when there is an unconscionable transaction under the Small Loans Act?

Mr. STEVENS: In the event the provisions of the act are contravened and there are hidden charges, in my opinion the the Unconscionable Transactions Relief Act is restricted to transactions where there is undue influence, virtually a fraudulent misrepresentation. Any case decided under the Ontario act or the comparable act of the United Kingdom has depended on the existence of fraud. There is one case in the United Kingdom, for instance, where an individual borrowed funds at something in excess of 50 per cent per annum and went back to the courts and suggested he should obtain relief, at which time he was advised that as he was fully cognizant of the terms of the transaction at the time he entered into the loan, as such he could not allege the terms were unconscionable.

Mr. MACDONALD: The mere charging of 24 per cent would not, in your opinion, be unconscionable?

Mr. STEVENS: No, nor, I submit, in the opinion of the Supreme Court of Canada.

Mr. MACDONALD: You made some reference to the fact that both credit unions and chartered banks are somewhat misleading in their disclosure of interest rates by reason of the fact they do not inform the customer of the fact that his funds are going back on deposit.

Mr. WOOD: What page is that on?

Mr. MACDONALD: You said that a few minutes ago.

Mr. STEVENS: If I may interject, I do not think Mr. Wood said it was misleading.

Mr. WOOD: I did not say that at all.

Mr. STEVENS: Nor is there any allegation such is the case, that the practices of banks and credit unions are misleading.

Co-Chairman Senator CROLL: Did Mr. Macdonald say that.

Mr. MACDONALD: I did. You are suggesting that even though the borrower does not know the putting funds back on deposit will affect the ultimate cost to him of the money.

Mr. WOOD: I am simply saying I doubt they have felt this was a factor in the cost. I do not think this was done with any intent to mislead. Without reflecting any deposits in the charge, it is not a true charge.

Mr. MACDONALD: Therefore, you suggest that in any legislation chartered banks and credit unions should be required to disclose this?

Mr. WOOD: I would say that any person taking a deposit would be required to, if it is conditional to the loan.

Mr. MACDONALD: Would you be interested in having the corporate powers changed so you could accept such money?

Mr. WOOD: We have not given a great deal of thought to that. I could not answer that question on short notice.

Mr. MACDONALD: Therefore, you do not know whether or not your rates would drop?

Mr. WOOD: We have not given that point any study. We have not contemplated that at all.

Mr. MACDONALD: Are any of your members related to Trader's Finance?

Mr. WOOD: Yes, Trans Canada Credit is a subsidiary of Trader's Finance.

Mr. MACDONALD: Is the relationship between Trader's and Guaranty Trust an indication of that company's interest in taking funds on deposit or being associated in that way?

Mr. WOOD: I cannot answer that.

Mr. HENDRIE: I believe that is a 20 per cent stock interest. I believe that it is for investment purposes. They have other investments. I believe they have a steel fabricating company.

Mr. MACDONALD: Isn't it a fact you have Trans Canada loan offices in the same offices as Trader's Finance?

Mr. WOOD: Yes.

Mr. MACDONALD: In paragraph 3 you have the statement:

The charges permitted are, however, lower than those prescribed by any consumer loan legislation in the United States.

When your alter egos, the sales finance companies, were here last week they agreed to maxima on interest rates, and they agreed it should be 1 per cent higher in Canada than in the United States on the basis that money is 1 per cent higher in Canada than the United States.

Mr. WOOD: Are you referring to the sales finance rate?

Mr. MACDONALD: Yes.

Mr. WOOD: Not the rate as far as the small loan companies are concerned?

Mr. MACDONALD: Why, if you make it 1 per cent higher in Canada, can you have a small loan rate lower than the American?

Mr. WOOD: It was not our choice. This was imposed on us.

Mr. MACDONALD: Let me ask you this subsidiary question: you are not going out of business now?

Mr. WOOD: No, because we are going into sales finance and large loans and are diversifying, because if our income continues to decline at the present rate we do not know where it is going to go.

Mr. MACDONALD: You are saying the members of the Consumer Loan Association are going to go out of business?

Mr. WOOD: No, but profits are declining and, looking a long way ahead, we are moving into other areas.

Mr. MACDONALD: What percentage of your business is loans on security? I think it was suggested in the royal commission that 7 per cent was.

Mr. WOOD: I can answer that as far as my own company is concerned. We have approximately 20 per cent that is unsecured.

Mr. MACDONALD: Is that fairly general in the membership?

Mr. WOOD: I prefer to refer that question to the other companies.

Mr. MACDONALD: Let us define our terms. When you say "unsecured," you mean without benefit of chattel mortgage or conditional sale contract?

Mr. WOOD: Yes.

Mr. HENDRIE: I think we ought to further define that. The chattel mortgage on furniture in almost every instance is in fact an unsecured loan because as a matter of policy members of the association do not take the customer's furniture away from him. That is only psychological security, and in the case of our own company we have never taken anybody's furniture at any time unless the furniture was abandoned and the family separated.

Mr. MACDONALD: But you take promissory notes in every instance?

Mr. HENDRIE: Yes.

Mr. MACDONALD: Do you retain these in portfolio through the term of the loan?

Mr. HENDRIE: Every loan is a new loan. When the old one is paid off the note or chattel mortgage is cancelled and turned back to the customer. We have nothing on hand except the last obligation.

Mr. MANDZIUK: Do any of your companies ask for co-makers to notes? That is, when you have not secured loans as credit unions do or banks, do you have someone to back or endorse the note?

Mr. HENDRIE: We do occasionally. That is not a very large proportion of our business. I think maybe one reason why we do business is because we have faith in people and we make loans basically on their signature.

Mr. WOOD: When I gave you the figure of 20 per cent I did not take into account the fact that in the Province of Quebec there is no chattel mortgage and the business in the Province of Quebec, which is a further 30 per cent, is thus not secured.

Mr. URIE: What about wage assignments?

Mr. WOOD: They are a rare situation. In the case of my own company we never take a wage assignment at the time of loan-making. This is, again, our company policy. The only time we would use one would be to collect a seriously overdue account.

Mr. URIE: This is to secure the loan?

Mr. WOOD: Yes, when the account is seriously overdue and yet the customer is working. It may be at the customer's request.

Mr. URIE: What about the other companies?

Mr. WOOD: I cannot answer that.

Mr. LAND: Speaking for my company, which happens to be Niagara Finance, our policy is identical with that expressed by Mr. Wood. Our general instructions state that if it is deemed necessary to support a loan by taking a wage assignment, then we must not make that loan if it is that weak. We do on occasion take these for the correction of a very serious delinquency in lieu, we might say, of some type of litigation.

Mr. HENDRIE: In our company, which represents a large block of business, we also never take an assignment except as a method of correcting a delinquent account at some later date.

Mr. WOOD: This appears to be the general practice; that is general throughout the industry.

Mr. MACDONALD: Referring to paragraph 49, and more particularly to the conclusion at the top of page 20, I refer particularly to the Manitoba statute, and to this sentence—"This amendment eliminated the requirement that the 'rate of interest' be stated". Was that elimination not carried out because the provincial Government did not have jurisdiction to make a law regarding rates of interest?

Mr. WOOD: I am not sure of the basis of your question.

Mr. MACDONALD: The whole thrust of your argument was that the rate of interest was taken out, and surely that was because the provincial Government did not have power to stipulate it.

Mr. STEVENS: I don't know whether it was a constitutional problem at that time, and I would question whether disclosure legislation is interest legislation. It may very well be related to the question of contracts or the nature of the formation of contracts. From my own personal experience, and I believe Mr. MacKenzie will confirm this, this was not raised in Manitoba or Alberta.

Co-Chairman Senator CROLL: You will have to make your answer shorter. We have quite a number of witnesses and there are many questions still to be asked.

Mr. MACDONALD: Perhaps I can summarize the answer this way; according to paragraphs 49 and 50 it is the view of the delegation that the question of the rate of interest being unconstitutional was not raised before the two provinces, and it is the view of Mr. Stevens that the laws of disclosure are not in the sole jurisdiction of the federal Government? Your feeling is that the provision for legislation to govern disclosure does not come within the scope of the federal Government?

Mr. STEVENS: I can visualize where it would be within the power of a provincial legislature to legislate on that.

Co-Chairman Mr. GREENE: I want to clear one point about co-signers. This was mentioned earlier. Is it not always your policy to have the spouse as co-signer?

Mr. HENDRIE: As a matter of policy we do not make confidential loans to a husband or to a wife. We make family loans so that each knows about the details so that if a husband and wife sign as a family group together we consider them as joint makers and not as co-makers.

Co-Chairman Mr. GREENE: But in fact you pursue the assets of both individually if they have them; is that not the practice? You say you consider it as a family loan. I don't quite know what that means.

Mr. WOOD: If a man has stocks or bonds, he can transport these into a bank and he can pledge them for a loan. In the security which we take, which is normally a chattel mortgage, these effects cannot be withdrawn from the house and cannot be placed anywhere else for storage.

Mr. CLANCY: Have you ever seized furniture?

Mr. WOOD: In my company, we have not.

Mr. CLANCY: You're darn right you have. That business is the biggest racket—getting them to sign this thing.

Co-Chairman Senator CROLL: Mr. Bell has a question.

Mr. BELL: Mr. Wood, we have had various witnesses who contended in a general way that the major loans more or less carried the cost of servicing the smaller loans. While I appreciate you may not have said this directly, you do suggest this. That is, you suggest that you perform a service to the lower income groups, and I also noted that in an answer to a question about the effect of the 1956 legislation you said that one of the reasons you were able to survive was that you went more extensively into the larger loan field. You also said you diversified. I think this was one of the ways in which you said you were able to get around your fears of the 1956 legislation. May I ask, if this is true, is it important, as the legislation exists, that you have this freedom in the larger loan field in order to service the lower income groups?

Mr. WOOD: As I mentioned before, there is very considerable competition in the field, and indeed with some maturities the rates are less than in certain areas in the small loans area. In fact I don't know of any company that charges more across the broad spectrum of large loans than they do on the small loans. There may come a certain point at which the rate over \$1,500 is in excess of the smaller loan level. For example, on a 9 per cent discount rate on a 12-month plan, the rate outside the act on a 12-month plan would be the same as for a \$1,000 loan. But there could be some larger loans carrying a higher rate.

Mr. BELL: The contention is made here that the banks are now moving into the small loan field. Are they moving into the smaller loans or is their business more generally in the larger loan field?

Mr. WOOD: My answer would be that they are moving into all loan areas, and that it isn't the amount of the loan that is establishing their area, but rather the income of the borrower. In other words, if the borrower is stable and has a good income whether he wants \$500 or \$1,500 sometimes he is able to obtain it at the bank. But it is rather the income factor that is the dividing point between the banks and our business rather than the size of the loan.

Co-Chairman Senator CROLL: Gentlemen, we have a number of members who wish to ask questions, and they must be given an opportunity to do so. Unless there is something you have to say that you consider absolutely necessary, make your answers very short and to the point. Now, Mr. Land, have you something to add to what has been said by Mr. Wood? Do you feel he has left something out?

Mr. LAND: I merely wanted to observe with respect to the bank loan areas, those are the areas in which the banks operate, that I think we can take it from their recent advertising that they are attempting to attract the larger sum borrowers because they are featuring the financing of automobiles.

Mr. BELL: What I am trying to get at is, are the banks carrying their share of the load? Is it not true they may be moving into the more lucrative larger loan field rather than performing the service you say your business performs in the lower income field?

Mr. WOOD: I have no statistics to support anything like that. However, it would be my belief from the loans being paid off by the banks that it is indeed the higher income borrower who is being serviced by the bank.

Mr. BELL: I think in previous hearings we have heard from your people that there was difficulty in obtaining money generally. Does this condition

still exist in the market at the present time or would you say that money is freer and that you don't have the same problem?

Mr. WOOD: You are talking about the problems of obtaining funds. To my knowledge most businesses are able to obtain them at a price; I know of no company having real difficulty in getting them, but I am sure that some are having to pay a considerably higher price than others.

Mr. MANDZIUK: May I make a suggestion, Mr. Chairman? This is a large field, and I have other questions. Could we adjourn and meet again in the afternoon?

Co-Chairman Senator CROLL: That is agreeable to me.

A MEMBER: No.

Co-Chairman Senator CROLL: Let us go on as far as we can.

Mr. MACDONALD: May I ask a question supplementary to that answer? What rate are you now paying on 90-day notes?

Mr. WOOD: We do not borrow on 90-day notes. We are prohibited.

Mr. HENDRIE: We borrow on the street, and we pay about $3\frac{3}{4}$ to $4\frac{1}{4}$ per cent; that is on 30- to 60-day notes.

Mr. OTTO: Mr. Chairman, I shall be very brief. When I say that it usually means I am going to be quite lengthy, but on this occasion I am not. As you recall, the last delegation we heard was from the sales finance companies who purported to be a unique industry. From your brief and the answers given here the context seems to be that you are one giant social welfare agency. Nobody has really suggested that you are interested in making money. Is that correct?

Mr. WOOD: Let me categorically state right now that we are.

Mr. OTTO: On page 10 of your brief you state under the heading of "Reason for Borrowing" that consolidation of debts accounts for 37.16 per cent of the money that you lend. Then, on page 9 in the second to last paragraph, you say:

In this circumstance a carefully planned consolidation program enables the family to work its way out of debt at a pace suited to its income.

Do I gather correctly that what you are really saying is that you are inducing people to borrow money to pay off the butcher, the baker and the doctor, and so on—and the lawyer—who charge them no interest—and even on a judgment only 6 per cent interest is charged—and to pay you 18 to 24 per cent interest? You do promote this type of lending more than anything else in your advertising campaigns, do you not? Do you really feel that this is a service?

Mr. WOOD: I very definitely feel that the consolidation of debt is one of the most important services that we perform. It may very well be that there is no interest on the amount outstanding with the butcher or the grocer, and that arrears of rent do not carry a rate of interest, but if the customer is to be evicted from his home for failure to pay his rent then I do not think it is a matter of concern to him whether he will have to pay a little more in order to remain in his home. I do not think that that is of deep concern to him.

I might say in answer to the first part of your question that we do not induce these people—perhaps I put a different connotation on the word "induce". We advertise a service. We do not create the need. The need is there due to debts. This is for the purpose of consolidation. The debts are there, and we do not create the debts. We merely advise the customer of agencies where he may obtain a loan to consolidate his debts under one roof, and pay them off in an orderly fashion out of income.

Mr. OTTO: Would you tell me what percentage of your sales you spend in advertising?

Mr. WOOD: What percentage of our sales—we do not measure it in that way. As a total of our expenses, which may be another measurement, it is 3.8 per cent.

Mr. OTTO: But it amounts to several millions of dollars a year?

Mr. WOOD: Not several millions of dollars. In our own company, which has 296 branches from coast to coast in Canada, we spend just slightly in excess of \$1 million, or \$3,700 per branch office, per year.

Mr. OTTO: Your interpretation of “inducing” and mine are probably different, but I do suggest that you certainly try to promote it. At page 14 in paragraph 33 you say:

Overdue accounts are controlled by reminder notices, telephone calls, letters, and, in some cases, personal calls at customers’ homes.

Is it your policy, or are you aware of a policy, that telephone calls are sometimes made to the employer, or to the debtor’s place of employment?

Mr. WOOD: This would be a rarity. The only time that you would call—and I can talk only about my own company when we come around to this sort of question. The only occasion on which we would call a man at his place of employment is when we were unable to reach him at any time we might be open, including Friday nights. If he made any objection to the telephone call then we would not call him back at his place of business.

Mr. OTTO: Do you control the collection procedure directly, or do you just leave it to a collection agency to collect in any way they see fit?

Mr. WOOD: We put no accounts in the hands of collection agencies. We collect them all directly.

Mr. OTTO: Is State Discount a member of your association? Mr. Chairman, if we had more time I would have liked to quote from this article by Ron Haggart . . .

Co-Chairman Mr. GREENE: No; table it.

Mr. OTTO: May I have permission to table this?

Co-Chairman Mr. GREENE: Yes.

(Newspaper article tabled.)

Mr. WOOD: This company is not a member of this association. It has not a licence.

Mr. OTTO: Well, it is nice to hear from a social welfare agency.

Mr. CLANCY: I have two questions. I will ask the chairman to give me the terms of reference of this committee, because I think we should look at them. I would also like to ask these gentlemen, who are the heads of finance companies which have 286 branches . . .

Mr. WOOD: There are 296 branches.

Mr. CLANCY: Branch managers are paid a salary and a bonus. How do they earn the bonus?

Mr. WOOD: It all depends what you mean by a bonus. We pay an annual . . .

Mr. CLANCY: In Alberta the people get paid on collections.

Mr. WOOD: No, we pay no man a bonus on collections.

Mr. CLANCY: If you have a wage scale, let us look at it.

Mr. WOOD: Our employees receive a salary. If a bonus is paid it is no more than that which is paid by many companies around Christmas time, and which is merely a distribution of the company’s profits. That is the bonus paid to the employees.

Mr. CLANCY: A branch manager in Calgary gets paid a bonus on how much he collects.

Mr. WOOD: No, sir.

Mr. CLANCY: He also gets paid a bonus on bad debts, if he manages to collect them.

Mr. WOOD: Not in my company.

Mr. F. C. Oakes, Executive Vice-President, Lombank Finance Limited: I do not know of any company in the industry that would accept that arrangement. You can immediately see all the pitfalls there would be in encouraging men to collect money on a commission basis. It would be just an impossible situation in an organization such as ours, and I think in any other institution.

Mr. CLANCY: All I am asking you to do is to give us the breakdown.

Mr. WOOD: The breakdown of our salary structure?

Mr. CLANCY: Yes, salary structure and bonuses.

Mr. WOOD: So far as my company is concerned?

Mr. CLANCY: Any of them.

Mr. WOOD: I will give it to you for my company.

Mr. SCOTT: I have a couple of questions to ask pertaining to paragraph 9 on page 3 of your summary:

It is our opinion that the expression of consumer loan charges as per cent per annum would be more confusing than helpful to many of our customers.

This is a recurring theme which we have heard from other people. What I want to ask you, Mr. Wood, is this: If there was a requirement for disclosure in dollar terms and yearly interest, do you still think that that would be confusing to the customer?

Mr. WOOD: Yes, I do, because, as I mentioned earlier, when we tell our customers, who want to know what the rate is, that it is 2 per cent per month or 24 per cent per annum they say: "But, what is that going to cost me?" We then say: "It is going to cost you \$13.46", and they then ask: "How can 24 per cent be \$13.46". They just do not understand it. Interest is not something that we think about every day, but dollar cost is.

Mr. SCOTT: Could we take an example? Suppose I were borrowing \$500. What would the dollar cost per year be?

Mr. WOOD: It all depends—are you talking about my own company?

Mr. SCOTT: Yes.

Mr. WOOD: \$13.46 per \$100.

Mr. SCOTT: And what percentage rate is that?

Mr. WOOD: How long does he pay? Does he prepay?

Mr. SCOTT: It is a loan of \$500 for one year.

Mr. HELMUTH MILLER: He pays \$60.74, or an average of \$12 per \$100 add-on.

Mr. SCOTT: What per cent per annum would that be?

Mr. WOOD: I cannot give you the precise answer on the per cent, because this is a loan under the act. It is \$500. It would be 2 per cent per month on the first \$300 of the loan, which is what we state very clearly in our contract—2 per cent per month, 24 per cent per annum, on the first \$300 of any loan; then 1 per cent per month, 12 per cent per annum on any excess over \$300, up to \$1,000. I could not very quickly tell what it is in per cent, but I can tell you what it is by calculating it.

Mr. CLANCY: If you cannot tell us what the rate of interest is, how do you work it out?

Mr. WOOD: We have to precalculate it. It is the only way, and it is very simple to put it on a machine. Our records show that it is 21.72 per cent per annum, that is, for a \$500 loan.

Mr. SCOTT: You have now told us the dollar cost and the annual interest rate. Why is it confusing to tell the customer that?

Mr. WOOD: Because he cannot understand how 21.72 per cent can be, let us say, \$11 in actual cost.

Mr. SCOTT: But surely that is his problem, not yours?

Mr. WOOD: But he comes back to us with this and says "Why should it be?" He needs clarification. He does not understand. The only thing that clarifies it and the only concern to him is the dollar cost. It is when you tell him that the dollar cost is \$11 or \$11.50 or whatever it might be, that he understands. He always needs to be told that that is the cost, that that is what he gets and that is what he pays.

Mr. SCOTT: That is part of your policy of not confusing your customer?

Mr. WOOD: That is correct.

Mr. SCOTT: And once you have told him the dollar cost and the interest cost, surely that is maximum disclosure, so that he is the least confused of all?

Mr. WOOD: I would have to disagree. You cannot help confusion. There might be certain people who would understand, but in the broad spectrum I would say no, that it will confuse.

Mr. SCOTT: Should the committee come to the conclusion that both rates should be shown, in your opinion what economic results would flow from that vis-à-vis your business?

Mr. WOOD: We have not made a study of what the economic results might be but I would have to feel that if indeed there is an increase in cost to the lender, to the credit grantor, or to whoever else might come under such regulations, either this cost will be reflected in the charge to the customer or, if it cannot be as under certain controlled rates, then it will reflect in another way, and that will be a reduction in the unprofitable type of loan. The customer will suffer, if there is an increase in cost occasioned by such a requirement, in my opinion, but I have made no supporting study.

Mr. SCOTT: So you do not think the company would suffer: it would only be the customer?

Mr. WOOD: I think it will be the customer. We will have inconvenience and higher costs, and if we cannot pass these on to the customer we will suffer too.

Mr. SCOTT: But that is the only consequence you foresee at the moment?

Mr. WOOD: At the moment.

Mr. HALES: Mr. Scott mentioned \$500. But supposing this \$500 loan was made from a credit union where you borrowed \$500 but have to keep \$100 on deposit, how are you going to establish the rate and the dollar cost that will be the same across the board and that all loaning companies will be on an equal basis? Here is the problem.

Co-Chairman Senator CROLL: If the law is that the companies must be on an equal basis—if the law is that—then they become on an equal basis and they have to conform, they have to change their method of doing business in order to conform. These gentlemen had to do a similar thing in 1956 when the act was amended. They conformed and changed their method to some extent and they went out and diversified themselves in order to pick up in another field what they thought they might lose in the field they were then occupying.

Mr. HALES: I can see a great area of confusion between credit unions making a loan on a deposit business and a straight loan.

Co-Chairman Senator CROLL: The credit unions were before this committee and they seemed to indicate there would be no difficulty.

Mr. McCUTCHEON: In the 1956 legislation on small loans, you have a sliding scale of interest rates. I think you have said that your companies have had to look for, shall we say, greener pastures due to that legislation. My question is this. Has that legislation had the effect of making the maximum volume of your loans in this \$700 to \$900 figure which I believe you have mentioned—

Mr. Wood: \$1,000 to \$1,500?

Mr. McCUTCHEON: No, the maximum volume of loans, if my memory is correct, was in the \$700 to \$900 range. This I presume is what you mean, to use my term, by looking for greener pastures. The interest rate at that level would be comparable, would it not, using two for up to three and so on, to the one and a half that you are quoting for those over \$2,500.

Mr. Wood: I do not think so, sir, if I understand your question correctly. We would not try to direct the man into a \$300 loan because we got 2 per cent per month, or into a \$500 loan because we got 2 per cent per month on the first \$300 and 1 per cent per month on the next \$200. We feel that up to \$1,000 we can service the entire field of credit. The rate on \$1,000, which is \$1.47 per month, \$17.64 per annum, permits us to give a comprehensive service. The area where service begins to fall off is between \$1,000 and \$1,500. Because we are not anxious to make loans in what we consider a dead area, a non-profit area, we try first of all to satisfy our customer with a \$1,000 loan. If he is worthy of a loan over \$1,500, and if he can make use of a loan over \$1,500, then we try to sell him a loan over \$1,000, as I think any business would do; but if we are trapped in there and he says "I need \$1,150 or I am going to walk out your door," we have to make a competitive decision, and probably we would make the loan. We put a maximum in the case of our own company of \$1,222 and will not make a loan in excess of \$1,222 on up to \$1,500. Does that answer your question?

Mr. McCUTCHEON: I think so. The increased size of your loan since 1956—has that kept pace with the increased cost of consumer goods? Let me put it more plainly. The \$2,500 car in 1956 is probably costing \$4,000 today. Is that reflected?

Mr. Wood: The average loan made, and the average balance outstanding, have been rising steadily. I would say this, and I think this is important, and it is right in our brief. On average, the loans that we make approximate one and one and a half months of a man's salary. That has not radically changed, but our average balance has increased, as incomes have risen and prices have risen.

Mr. McCUTCHEON: Do you feel, though, that this 1956 legislation has had a harmful effect on a certain segment of the population who probably need \$1,300?

Mr. Wood: I do feel there is an area there that is not served and people are not able to obtain exactly what they want. They may have to take \$1,000 or even \$1,200 instead of \$1,400. I do not feel they have sufficient freedom to negotiate as they should be able to.

Mr. McCUTCHEON: I came in early to this meeting because I was most anxious to meet "friendly Bob Adams" but I have not seen him.

Co-Chairman Senator CROLL: Who is friendly Bob Adams?

A MEMBER: He must be a constituent of Mr. McCutcheon's.

Co-Chairman Senator CROLL: Is this "friendly Bob Adams" on the radio?

Mr. McCUTCHEON: Friendly Bob Adams is on the radio and he is the loan counsellor all over North America.

Mr. SCOTT: A mythical character.

Mr. McCUTCHEON: He is not here today. Do you feel that this sort of soap opera type of advertising is suitable for a fine old industry—I will not use Mr. Otto's words, a welfare agency—but a fine service to the public. Do you feel that this type of thing is really necessary?

Mr. WOOD: You are asking, sir, should we sponsor a soap opera?

Co-Chairman Senator CROLL: He says you are.

Mr. McCUTCHEON: I am suggesting that this type of advertising: "Take your loans and get them consolidated with friendly Bob Adams," is hardly in keeping with the dignity and decorum of financial institutions.

Mr. WOOD: I am sorry, I do not know Friendly Bob Adams. However, I like to feel that our advertising is dignified. We do not feel it is high pressure. We feel we are letting the public know our service is available in case they need it.

Mr. SALTSMAN: I have a couple of questions. There has been a fairly strong argument put forward that this is performing a great service. Credit bureaux have been consolidating loans and making arrangements with the creditors without really increasing the amount of money involved and the necessity of paying a rate of interest. As a social service for people who have already found themselves in difficulty—or they would not be in this position—is there not some argument for the contention that it would be more advisable to consolidate loans under this system than by borrowing?

Mr. WOOD: I do not think it is we who make the decision, but rather the customer. It is a matter of pride. I think that most good Canadian citizens are not anxious, when they get into a state of indebtedness, to go to a welfare agency and get assistance in that way. They want to pay their own way.

As to your next point, you are talking about people who do get in dire distress either through their own fault or on account of some other problem. There are indeed certain public services available. I might say in addition, that the Credit Grantors Association is experimenting at the moment with what we call a free debt counselling service, which we are making available to people who do get into this type of circumstance. At present we have two of them operating, one in Ottawa and one in Winnipeg. As I say, they are both under the management of the Credit Grantors Association. This is a voluntary situation, where the managers of various companies that are members of the Credit Grantors Association contribute their time in the evenings, and so on, to counsel these people.

I have a letter before me, which has been widely disseminated to solicitors and to the welfare agencies, and is not something we keep a secret. In 1963 there were 310 cases processed in Winnipeg. In 1964, 225 families were counselled in that city. So we try to do it both ways. We are providing a paid consolidation service for those people who are willing and able to pay for it, and we are trying to give free service to those who are not in a position to do so. I am sure this debt counselling service will spread.

Mr. SALTSMAN: I am very pleased to hear that. I have one other question. Information has been supplied to this committee regarding a number of states which have disclosure laws. I think it was previously stated in the evidence submitted to this committee that the assumption was that there were not too many states which had disclosure laws. There has been considerable evidence that disclosure on a percentage-wise basis would involve some serious economic

effects. I would like to ask the gentleman, who indicated that states like Hawaii and New Hampshire have disclosure laws, if there is any evidence of harmful effect in those states where the percentage method is used?

Mr. R. G. MILLER: These laws provide alternatives. They do not require disclosure in terms of percent per annum. They do require disclosure in dollars or percentage per annum. So that most credit grantors are able to comply with the requirements of this without changing their method of doing business. The only adverse part of it was in the State of New Hampshire, in the second mortgage business. There was a series of bonuses being paid on second mortgage business, and they were trying to get at this, and ultimately they passed a second mortgage regulatory law which put a damper on this illegal, or perhaps harsh practice type of thing.

However, there was no adverse economic effects, because all of the ethical lenders could comply with one or other of these criteria. In some states, such as Hawaii, you can take your choice of dollars or percentage.

Mr. SALTSMAN: And most of the companies choose dollars rather than in terms of percentage, or both?

Mr. R. G. MILLER: Well, it would depend on certain people who could not meet one or other of the criteria.

Mr. SALTSMAN: Is there any indication, in the case of those who disclose as a percentage, of an adverse economic effect.

Mr. R. G. MILLER: Both the Hawaii industrial loan act and the Wisconsin discount law are pretty old statutes. In other words, they have not been passed since Mr. Douglas first put the matter before the authorities.

Co-Chairman Mr. GREENE: In those jurisdictions, or in any jurisdiction, does the borrower have the choice, or is it inevitably the lender that has the choice of the manner in which he discloses?

Mr. R. G. MILLER: The state requires the lender to furnish the borrower with the information.

Co-Chairman Mr. GREENE: And in no jurisdiction you know of does the borrower have the right to demand any interest rate in terms of simple annual interest?

Mr. R. G. MILLER: I don't believe it has ever been required by law.

Mr. HELMUTH MILLER: The Hawaii bill had the Douglas approach, in which there was the absolute requirement to include the annual interest rate. The University of Hawaii made an intensive study, and is the only one in which every creditor is embraced in the act. This is very important. In any event, they did reject this all-inclusive annual percentage rate, and there was no criterion. I think that should be brought out here. It was the only all-embracing one which had a complete set-up and they rejected this one common denominator.

Mr. R. G. MILLER: I forgot to mention earlier that I reviewed all of this sales finance legislation. There were 48 laws applicable to automobiles, and they do call for full disclosure in the United States having to do with the transaction, which inevitably means a statement in dollars of each part of the transaction.

Mr. NASSERDEN: Do you think that your type of company is taking greater risks than other lenders in the field?

Mr. WOOD: You are talking primarily about banks and credit unions?

Mr. NASSERDEN: Yes.

Mr. WOOD: I would say, yes, we are. I think this is reflected in our write-off, which certainly would be higher to my knowledge than either the banks or the credit unions.

Mr. NASSERDEN: What is the greatest single cost that you would say you have to assume in that regard?

Mr. WOOD: Salaries would be the highest.

Mr. NASSERDEN: Well, outside of salaries. We know that it takes people to supervise this.

Mr. WOOD: Rents.

Mr. NASSERDEN: Salaries and rent?

Mr. WOOD: And many costs. Salaries are definitely the highest, and write-offs are an important item.

Mr. NASSERDEN: What percentage is that?

Mr. WOOD: This has varied year by year. For our particular company, in the last two years it has been a little less than $1\frac{1}{4}$ per cent gross. Then, of course, you inevitably have this gross reduced by collections that are made from accounts that were written off in previous years. The net charge off we have had in the past four or five years would be in the area of .81, .82, .83, .84.

Mr. NASSERDEN: Less than 1 per cent actually?

Mr. WOOD: Under fine economic conditions. This was not true in the thirties. If any person could assure me that the economic conditions were going to remain as good as they are right now, I would say that maybe less than 1 per cent would be considered the right criterion.

Co-Chairman Senator CROLL: You have come to the right place.

Mr. NASSERDEN: Change to Government! The reason I asked this is, looking at your brief on page 10, the distribution of loans, you have the occupation, skilled, semi-skilled, 47 per cent, or approximately half. I would say when you take a look at the other categories to which loans were granted that more than half—I would say more than 75 per cent, or a little higher than that, approximately 75 per cent could be put into the category of skilled labour. You have the skilled and sem-skilled at $47\frac{1}{2}$ per cent. I am not too sure what service workers are, where they would come in on it.

Mr. WOOD: They would be domestics, policemen . . .

Mr. NASSERDEN: County employees and so on?

Mr. WOOD: A mixture.

Mr. NASSERDEN: You would have over 75 per cent of skilled people who, I take it, have better than average jobs and a salary that is an assured thing. Taking your testimony earlier today, I take it when you make a loan to a person such as that you are not taking very much of a risk.

Mr. WOOD: I think the record indicates we are taking more of a risk because our write-off is higher in spite of the fact we have a larger staff to do the work that is necessary to collect accounts.

Mr. NASSERDEN: Come again on that for a moment, please. Could you come again on that? I did not get what you meant by that.

Mr. WOOD: I simply said our charge-off percentage is higher than either, as far as I know, the credit unions or the banks, in spite of the fact we have a larger staff available to talk to people and to guide them and counsel them in how they should pay and straighten themselves out.

Mr. NASSERDEN: We might have a difference of opinion as to why that is. 24 per cent, to my way of thinking, is exorbitant for a skilled person with an assured salary, which is something you look at when you grant a loan. I think in 1930, or prior to that, when you took out a loan you were running some kind of risk, but today in cities like Ottawa, Winnipeg, or where you are doing business in these 237 points you are looking at that payroll and it is an

assured thing, and you are not running the risk you used to run at some other time, but the contributing factor today is the interest rate.

Mr. WOOD: If we served nothing but highly skilled workers who had lots of security and high incomes we would not need the rate we get, but we are dealing with a broad cross section of the Canadian population. Not all skilled workers are necessarily good money managers, and some require a lot of work in order to get them straightened out. We cannot say that with skilled workers we would let them have a rate somewhat less than for a man who is not a skilled worker. To attempt to negotiate an individual rate for every type of person who came in and to say, "This group will get such and such a rate, and this group will get such and such a rate," would be very difficult.

Mr. NASSERDEN: This is getting back to why the committee was set up, to have the disclosure of the percentage people have to pay. I think under the dollars system you have today—and other people said it is easier to explain, and I might agree with that, but disclosure is the thing that will tell these people the kind of situation they are getting into—

Mr. WOOD: I question that—

Co-Chairman Senator CROLL: Let him finish his question.

Mr. WOOD: I am sorry, I thought he had.

Mr. NASSERDEN: On a percentage basis a man knows that he is going to have such and such an income, and they want to spend it. All of us want to spend our income; that is human nature. But by the dollar disclosure you have today there is no question about it, that they are given an impression—and I am not saying it is deliberate—it may be, but I am not saying it is—they are given the impression it is not going to cost as much as it in fact does in a percentage.

Mr. WOOD: We do not disclose the dollar cost in the newspapers. It is only when the customer sits down and negotiates with the branch manager that this question of dollar cost disclosure comes out. The point is that the public is being subjected to advertisements in any newspaper you want to pick up. I happen to have a couple here which make it pretty clear to people that loans are available. "Of course, our bank likes to say 'yes'". These are not exactly small ads. There is one here, "Do you want to buy a horse?" The public is aware this service is being offered. I think you would have to say many people feel that loan service is available at 6 per cent or a little more. Credit unions are not exactly shy about letting the public know their service is available at 1 per cent a month. I think critics of our industry have not been shy about making it public knowledge that we supposedly charge 24 per cent on all our loans, which of course we do not. So I think the public, if anything, has had the idea that it is about a 6 per cent rate for banks, 12 per cent for credit unions and 24 per cent across the board for small loans companies, and this is not a fact.

Co-Chairman Mr. GREENE: Disclosure may be of benefit to you.

Mr. NASSERDEN: Undoubtedly, if this is true, disclosure is a necessary thing then.

Co-Chairman Senator CROLL: That is what Mr. Greene said.

Mr. MACDONALD: Mr. Wood, in the royal commission report—and I refer to page 382 of the report—it states:

...but the 1/2 of 1 per cent month allowed on balances over \$1,000 is too low and simply prevents most companies from lending amounts between \$1,000 and \$1,500.

This is what you have just said to us.

A maximum of 1 per cent on all balances from \$300 to \$5,000 might be more appropriate.

I know your position is you prefer that the limit not be raised to \$5,000, but let us assume your fond hopes are not realized and it is. What do you think of that 1 per cent rate between \$300 and \$5,000?

Mr. WOOD: We have not studied it in depth, because there has been no legislation in this direction. The fact a recommendation has been made is not sufficient to cause us to fully analyze the situation. We have looked at it briefly. We think it would be a very heavy loss so far as our company is concerned. We deal primarily in loans under \$1,500, and I think we would be very sharply affected. Companies that deal in the larger loans would be even more seriously affected. There would be more of the 1 per cent money in there. I might be able to tell you what rate would be thrown off on a specific loan. I think I have that handy. Let us say at \$1,700 on a 36-month loan, the theoretical yield—and this is only theoretical because you never collect the theoretical because of low interest accounts or principal-only accounts, which you have voluntarily placed on a no interest basis—my own company has \$½ million in this category—your practical rate is going to be less than your theoretical rate. In this case, on \$1,700, if you paid it according to maturity it would be 1.28 per cent per month or 15.45 per cent per annum. That is on a 36-month contract. If you prepay it in 10 months the rate would be 14.64 per cent which is very little more than the banks are charging—and that is on only \$1,700.

Mr. MACDONALD: So that from that it would appear that you are going to lose 2 per cent per annum.

Mr. WOOD: We would be forced, on certain sizes of loans, to the same rates as banks and credit unions charge without having the advantages they have.

Mr. MACDONALD: Then going on to page 382, it says in footnote No. 4 that:

On small contracts the administrative costs are high relative to the amount of credit and inevitably involve high annual rates. It might be advisable to allow a flat amount service charge of, say, \$1.00 per contract and to exclude this portion of the charge from the amount required to be expressed in annual rate form. If this is not feasible, the main purpose of the legislation could be achieved by exempting all amounts under \$50 from its provisions, while preventing evasion through the writing of numerous small contracts below the exemption limit.

Have you given consideration as to which you prefer as between the two alternatives?

Mr. WOOD: No, sir.

Co-Chairman Senator CROLL: Any further questions?

Mr. OTTO: One question. Gentlemen, you stated that the last thing in your minds is to try to enforce payment through court action, and by and large you follow policies avoiding any court action to enforce payment. Would you object, then, if legislation were introduced to prevent your going to court to collect on bad loans—would that make much of an effect on your collections?

Mr. WOOD: It would not have a great deal of effect. I think you have seen in the brief the number of accounts that actually go to garnishment or formal seizure. It would have some effect inasmuch as we do use the courts in certain cases, and it would seem to me to be unreasonable to legislate that we could not use the law of the land to permit us to do this.

Mr. OTTO: But you use so much money on advertising and promoting your services, could you not use a little more money to collect it, rather than by resorting to court action?

Mr. WOOD: It is a case where we are damned if we do and we are damned if we don't. If we don't use the courts, we are accused of harassing the people who have borrowed from us, and if we use the courts we are accused of enticing people to borrow money and then using the courts to collect our accounts.

Co-Chairman Senator CROLL: Any further questions? Mr. Urie.

Mr. URIE: I asked this question some time ago. We were discussing the methods by which the charge is calculated on loans over \$1,500. You said the majority of cases were calculated on the discount and add-on system. Why is that system used by companies which in lower amounts must use the declining balance system to calculate charges?

Mr. WOOD: I think the main reason we use the pre-calculated type of charge is simply for administrative purposes. If you pre-calculate your charges then you no longer have to calculate and break down the payment into interest and principal each month when the customer pays by mail or over the counter. Under the Small Loans Act you cannot pre-compute your charges. You must make the breakdown of principal and interest on the specific day that the customer makes a payment. From an administrative point of view, precomputation would be a saving.

Mr. URIE: During the course of your testimony you made the statement that if it was necessary to disclose the cost of a loan as a percentage as well as a dollar-and-cents amount this would mean an increase in the cost to the customer. But we have had people appear before us who have said that tables could be supplied which, by the simple addition of an extra column, could provide for the disclosure of a percentage rate. I cannot see why the cost would be increased if such tables were supplied.

Mr. WOOD: On the loans under the act you could indeed pre-calculate and, as you say, add a line for each of the various loan sizes. But as you know from the records of the Department of Insurance there are 707 different interest rates between \$300 and \$1,500 under the act. We do not use all 707 ourselves; we only use 217. But there is a different rate on any loan from \$300 up to \$1,500. It is possible that you could run them through a machine—a calculator—and indeed come up with an answer. But it would only be accurate if there was no prepayment. Prepayment is the only factor which affects loans under the act. We are not allowed penalties or any extra services. But prepayment could affect it in the case of a loan, say, of \$1,200 for 12 months. If the borrower pays in one month the annual rate is 14.04 per cent, and if he carries on for 12 months it is 16.81 per cent. You have a variation there of almost 3 per cent. This is not a minor variation. If you are going to say "Let us forget prepayment and assume that the borrower pays on time," then it can be done.

Mr. URIE: That is what I wished to know.

Co-Chairman Senator CROLL: Mr. Scott?

Mr. SCOTT: Is prepayment a very large item with you in your operation?

Mr. WOOD: Yes, in some cases, and of course there is always a question of prepayment not only in cash but by another loan.

Mr. SCOTT: I understand this would be a question of consolidation of debts.

Co-Chairman Senator CROLL: Yes, but he made a distinction. If you have a loan for \$500 and there seems to be some difficulty and you cannot pay it, and have to make a further loan for \$700, that \$500 is prepayment.

Mr. WOOD: Or a borrower may borrow \$500 and then come back in three months and say he would like his payments reduced and he would like to have a \$300 loan. Prepayment lowers the rate to the customer.

Mr. URIE: In point of fact it is up to the customer. If he varies the loan in any way the rate he will be charged will be different. That is all he has to be told.

Mr. WOOD: As far as loans under the act are concerned that is the only variable.

Mr. URIE: On loans over \$1,500, if the declining balance system were used, it could be as easy as you say it is?

Mr. WOOD: If all charges could be included, and if you could set it out with no delinquency charges or prepayment and in equal monthly instalments with no variation for farmers or fishermen or tourist resort owners or people who are likely to have erratic repayments, it could indeed be done.

Mr. URIE: With regard to those last people you mention, Mr. Irwin said before us that tables could quite easily be prepared for loans to people of this kind also.

Mr. WOOD: Well, of course, some people think they have come up with a table which is revolutionary. I noticed one suggested by the Royal Commission on Banking and Finance at page 207 where it is given as $\left[\frac{2 CP}{L(n+1)} \right]$

This is the constant ratio formula which has been in use for many years. We have also seen an article in the *Winnipeg Free Press* of February 17, 1965, entitled "The British Lay a Ghost". According to this they had come up with a breakthrough interest formula that would resolve all our problems. We felt we should have this and we got in touch with the British Trade Commission. We have here a letter where they give the formula as $\left[\frac{200md}{p(n+1) + \frac{d}{3}(n-1)} \right]$

When we analysed this we found it was nothing more than the old direct ratio formula with different symbols, which is: $\left[\frac{6 MD}{3p(N-1) - d(N-1)} \right]$

They are both the same old formula.

Mr. URIE: I would not disagree with you at all, sir, but your counterparts who were here last week agreed that the actuarial system which was advocated by Mr. Irwin is quite a satisfactory system, and could be made applicable throughout their industry, if necessary. They said it was the most accurate form. Would you say the same thing?

Mr. WOOD: I think the actuarial formula is certainly the most accurate formula, but I have not seen a formula yet that will solve the problem of delinquency charges, prepayment and skip payments.

Mr. URIE: We understand that, sir. I have one more question. On page 21 of your brief, in paragraph 52 you make this statement:

Association members express their large loan charges as dollar add-on, discount, per cent per month or per cent per annum—

I take it you mean there are already some who are expressing their charges as a per cent per annum. Is that correct?

Mr. WOOD: There is one company—

Co-Chairman Senator CROLL: Yes, it was referred to in the report of the Royal Commission on Banking and Finance. I think it was Coronation Finance. You will find it on page 383 or page 384.

Mr. WOOD: I am sorry; what paragraph is this?

Mr. URIE: Paragraph 52.

Mr. WOOD: I am not aware of any company that expresses it as a per cent per annum.

Mr. MacKENZIE: There are a couple of small companies.

Co-Chairman Senator CROLL: There is a reference to this in the report of the Royal Commission on Banking and Finance, and the name of the company is given. It is not as big a company as yours.

Mr. WOOD: That is Coronation Credit, if I remember correctly, and they are not members of our association. These are a couple of very small companies.

Co-Chairman Senator CROLL: What companies are they, do you know?

Mr. WOOD: I cannot answer that. I am told that one is Severn Finance, which is a small company up in Orillia, Ontario, and I think Coronation Credit is referred to in the Royal Commission's report.

Mr. URIE: I have one further question to ask Mr. Miller.

Co-Chairman Senator CROLL: Which Mr. Miller?

Mr. URIE: Either one. I will address my question to Messrs. Miller. In your Appendix B, Messrs. Miller, you have a number of states with ceilings of \$1,500 or less. Can you tell me how many states have loan ceilings in excess of \$1,500, and which ones they are?

Mr. HELMUTH MILLER: I could go down this list. California has a \$1,500 ceiling, but it is a sort of a technical thing. I do not know the historical basis of it, but it was a \$1,500 ceiling when the ceilings were \$300 throughout the States. There is some special reason why that state has that ceiling, and I think you might just call that an unlimited ceiling rather than a specific small loans ceiling as we understand the term. Kansas has a ceiling of \$2,100; Maine is \$2,500; Massachusetts is \$3,000; Missouri has a constitutional involvement and for all practical purposes it has no ceiling at all. Nebraska has a situation which was in the courts, and I think it is back to a \$300 ceiling, but for a while it was \$1,500. New Hampshire is \$1,500; Ohio is \$2,000; Oregon is \$1,500; Nevada is \$2,500; South Dakota is \$2,500; and Texas is, I think, \$1,500.

Co-Chairman Senator CROLL: That is pretty small for Texas.

Mr. HENDRIE: There are only eight states out of the 50 which have ceilings in excess of \$1,500.

Co-Chairman Mr. GREENE: I notice, Mr. Wood, that only 1.78 per cent of your loans are made to farmers. Can you give us any reason for this?

Mr. WOOD: I think one possible reason for this is that we have not provided for the skipped and irregular payments. This has been a disturbing fact in that a number of companies have found it is difficult to vary their payment schedules. However, there are companies which have specialized in farmer and fishermen loans with skip payments.

Co-Chairman Mr. GREENE: This table covers all of your organization?

Mr. WOOD: Yes, but some companies would have a much higher percentage, and some would have none at all. The city lenders would have none at all.

Co-Chairman Mr. GREENE: Would it be a fair conclusion to make that farmers' accounts would be quite costly to handle as compared with the accounts of the urban dwellers; where you get a large number of consumers within a small area as compared with farm consumers who are more spread out?

Mr. OAKES: Mr. Chairman, perhaps I might answer that. As a part-time farmer I find that there are many other agencies than these companies from which I, as a farmer can borrow, and I do not really have to approach a small loans agency.

Co-Chairman Mr. GREENE: Let me follow that up, if I may. Do you think that the full-time small farmer who must make his living from farming and who has a disaster year and needs to borrow money on a temporary basis to recover can borrow \$1,500 or \$2,000 from these other agencies. I am not talking

about money to finance his current crop because he can borrow that money from a bank, but I am thinking of his borrowing money to recover from debts incurred in a bad year. Can you give us some help in that regard?

Mr. OAKES: I would say that the figure of 1.75 per cent that we use covers just that type of circumstance in respect of small farmers. Generally, a farm improvement loan from a bank means a substantial amount of money, and in respect to these other agencies the farmer is well supplied.

Co-Chairman Mr. GREENE: You do not feel there is any gap in our credit picture with respect to the small farmer who needs to borrow to cover his debts incurred in a year of catastrophe. I think you have made it quite clear to us that your service is very beneficial in that area of consolidating debts where there have been personal troubles or bad judgment, but obviously that service does not cover the large proportion of farmers. Is there any similar institution to yours which performs this service for the farmer, or do you people think that there may be a gap in our credit picture in that area?

Mr. WOOD: I think we have our own particular type of institution, and then we have credit unions that operate oftentimes in these rural communities, and then there are the banks and certain types of Government agencies. It would be my feeling that there is pretty good across-the-board coverage at the moment, Mr. Chairman.

Co-Chairman Mr. GREENE: You do not think there is any problem with respect to farmers in this area?

Mr. WOOD: I am not an expert in this, but my hasty analysis would be that I do not see any particular problem.

Co-Chairman Mr. GREENE: Is it a fair conclusion to make that the consumer lending institutions such as you represent have no great service to render in that area; that your clientele is mainly urban?

Mr. WOOD: Our clientele is largely urban.

Mr. LAND: May I add one further thought? It happens that my company has many branches in rural areas, and we do, I believe, make a substantially higher percentage of loans to farmers than the brief of the association indicates as a whole. One limiting factor that I think is worthy of mention is that under the act we cannot very adequately service the farmer because of the requirement of equal monthly payments. We cannot draw up a payment schedule on a crop rotation basis, but certainly we try to serve the farmer to the best of our ability.

Co-Chairman Mr. GREENE: But the act itself may be some handicap in that area?

Mr. LAND: Yes, because it requires equal monthly payments.

Mr. MANDZIUK: Mr. Chairman, there is one question that occurs to me. If the Government was to enact legislation such as that which guarantees loans under the Farm Improvement Loans Act for the type of service you render to your customers, would you be able to reduce your rate of interest by any appreciable amount. In such a case you would not be carrying the risk entirely by yourself.

Mr. WOOD: We have not given any consideration to it, but it sounds like a reasonably attractive offer to me. One would want to look at it very carefully.

Co-Chairman Senator CROLL: That is a guaranteed loan, is it not?

Mr. MANDZIUK: Yes.

Co-Chairman Senator CROLL: That is what they are looking for.

Mr. MANDZIUK: They are looking for compensation, and I am wondering why the compensation should be as great as it is.

Co-Chairman Mr. GREENE: Mr. Wood says: "Beware of the Greeks bearing gifts".

Co-Chairman Senator CROLL: Is there anything else you want to say, Mr. Wood?

Mr. WOOD: No, sir, except that it has been a great pleasure to appear before this committee. I believe there have been two or three questions that we have not answered, and we shall submit these answers to you as soon as possible.

Co-Chairman Senator CROLL: Mr. Greene and myself wish to thank you, on behalf of the committee, for your attendance here this morning. You have been most informative and your statements are deeply appreciated.

The committee adjourned.

APPENDIX "V"

SUBMISSION

by

CANADIAN CONSUMER LOAN ASSOCIATION

to

JOINT COMMITTEE OF THE SENATE AND HOUSE OF COMMONS

on

CONSUMER CREDIT

March 30, 1965

BRIEF

to

JOINT COMMITTEE ON CONSUMER CREDIT

by

CANADIAN CONSUMER LOAN ASSOCIATION

INTRODUCTION

1. The Canadian Consumer Loan Association was incorporated as a non-profit organization in the Province of Ontario on March 2, 1944. The original membership consisted of six companies licensed under the Small Loans Act and the aims and objectives of the Association then, as now, may be summed up as: "To do all things as are incidental or conducive to the attainment of ethical operating practices in the consumer loan industry". As of December 31, 1964, the Association had 54 member companies which, in total, had over 95% of the outstanding loan balances under the Small Loans Act. All members of the Association must be licensees under the Small Loans Act which was passed in 1939 and amended in 1956. (See attached Appendix "A" for list of members.)

2. The Association has often provided evidence to the Department of Insurance which has enabled the Superintendent to take appropriate action to prevent abuses by unlicensed lenders in the regulated area.

U.S. CONSUMER LOAN EXPERIENCE

3. Ever since the Russell Sage Foundation, a philanthropic research agency in the United States, established a Division of Remedial Loans in 1908, it has been recognized that special regulations are necessary in the control of the smaller size consumer loans because these are usually made to the lower income groups. The borrower must be protected while, at the same time, the lender must be permitted rates which are adequate to attract capital after giving weight to the risks and administrative expenses involved in consumer lending. Since 1916 six drafts of a model bill, known as the Uniform Small Loans Law, have been produced by the Foundation. The Small Loans Act in Canada and similar legislation in a majority of the United States incorporate principles set out by the Foundation.

4. W. David Robbins, Ph.D., Associate Professor of Business and Economics, Rollins College, produced a study of the personal cash lending business in the United States which was published by the Bureau of Business Research, College of Commerce and Administration, Ohio State University, Columbus, Ohio, in 1955. Professor Robbins' study encompassed 18 consumer loan companies operating 2,262 branches in 38 states, 22 banks located in 10 states, and 7 credit unions in 2 states. The information covers over 7,800,000 individual consumer instalment loans. One of the conclusions of the study was that consumer loan companies are the principal source of personal instalment loans exclusive of loans for the purpose of purchasing automobiles. Loans by the consumer loan group were largely made for such purposes as medical expenses, education expenses, vacations and general personal expenditures (e.g. debt consolidation) as distinct from the consumer loans of banks which frequently

were for the purchases of consumer durables. Under the general heading "Characteristics of the Borrowers of Consumer Loan Funds" Professor Robbins observes that it is evident that banks prefer to make loans to well established persons. Such borrowers have relatively higher monthly incomes and, as a group, are older than the average in the occupations represented. Consumer finance companies serve more widely all occupations of the working population and a major portion of the loans made by such companies goes to the lower income borrowers. The average monthly incomes of borrowers from credit unions are, however, approximately the same as those of consumer loan company borrowers. Both of these borrower groups have lower average incomes than bank borrowers. Experience of Association members indicates that many of Professor Robbins' conclusions would apply equally in Canada.

5. History demonstrates that the demand for small loans exists whether or not a lawful means of satisfying it is present. We have been slow in coming to realize that economic activity must allow adequately for the individual as a producer, as a consumer, as an investor and as a user of credit. Borrowers from lower income groups seldom own readily marketable assets which they can use as security. Such borrowers, prior to the passage of small loans legislation, were in a relatively weak bargaining position and without proper regulatory legislation were obliged to seek out the required loans from unregulated sources with unfortunate consequences. The abuse of consumer loan borrowers by unregulated lenders is well documented in the files of social agencies as well as in the newspapers of the preregulation era.

6. The emergence of the regulated consumer loan companies in the second decade of this century recognized it is just as sound for consumers to borrow against future income as it is for business to do so. This development also made accessible to a large percentage of the population which formerly had no cash lending institutions suited to its needs, a dependable source of loans at rates which are fair to borrowers and to those lenders who are prepared to accept the challenge of specialization in the field of personal lending. Chattel mortgages are often taken and co-makers are occasionally required but the real security for personal instalment loans is the character of the borrower.

THE SMALL LOANS ACT

7. In 1936 ethical lenders, social agencies, banks, credit unions, better business bureaux and other community leaders in Canada began to urge upon the Canadian Parliament the need for small loan legislation. These efforts led eventually to an examination of the subject by a succession of parliamentary committees and in 1939 resulted in passage of the Small Loans Act.

8. The Small Loans Act, as passed in 1939, defined "cost" to include every charge that could be made to borrowers and set the maximum rate that could be charged at 2% per month on reducing balances. The ceiling of loan size under regulation was set at \$500. Lenders were required to take out annual licenses, facilitate annual inspection by officials of the Department of Insurance and submit a comprehensive annual report to the Department. Certain clauses prohibited compounding or deducting the cost of loan in advance while others set out the terms and conditions for repayment of loans whether repaid according to contract, in advance, or overdue.

9. By 1956 when the Act had been in force for sixteen years, it became apparent that the demand by consumers for loans over \$500 had increased to the point that the Act needed revision to increase the size of loans under regulation. This was evidenced by the fact that at the end of 1956, \$255

million, or 74% of the \$343 million in loans outstanding with consumer loan companies or their affiliates, were made for original amounts of more than \$500.

10. After extensive study by the Banking and Commerce Committee of the House of Commons, the Act was amended effective January 1, 1957, to extend the area of regulation to cover loans up to \$1,500 under the following conditions:

(a) Rates:

2% per month on any part of the unpaid principal balance not exceeding \$300,

1% per month on any part of the unpaid principal balance exceeding \$300 but not exceeding \$1,000,

$\frac{1}{2}$ % per month on any remainder of the unpaid principal balance exceeding \$1,000 but not exceeding \$1,500.

Note: No other charges whatsoever may be made under the terms of the loan.

(b) The cost of any loan or any part of it cannot be compounded or deducted in advance.

(c) In the case of loans for \$500 or less, made for more than 20 months, and loans between \$500 and \$1,500 made for more than 30 months, the rate must not exceed 1% per month on unpaid principal balances. Similarly, if part of any loan remains unpaid after the due date of the final instalment shown in the contract, the rate shall not exceed 1% per month on the unpaid balance.

(d) If more than one loan is made to one person or to a husband and wife, the same rates apply as though one loan for the same total amount was made.

(e) Loans shall be repayable in approximately equal monthly instalments.

(f) The borrower may repay the loan or any part of it on any instalment date, without notice, bonus or penalty.

11. In contrast with the situation in 1956, at the end of 1963, of the \$755 million reported by the Bank of Canada as outstandings of licensed consumer loan companies and their affiliates, \$530 million or 70% were loans originally made for amounts less than \$1,500. It is even more important to note that figures of companies which held over 86% of the total large loan business in 1963 show that only about 11% of borrowers took loans of more than \$1,500. This, of course, means that over 89% of borrowers took loans in sizes which come under the regulation of the Small Loans Act. Of the 11% of loans in the more than \$1,500 category many are for small business and commercial purposes frequently involving several thousand dollars.

12. The following tables (1 & 2) show the steady growth of the number of borrowers and amount of loans outstanding since the Act was amended as evidence that the service rendered by small loans licensees is suited to the needs of substantial numbers of Canadian consumers:—

TABLE 1

Small Loans Made—Small Loan Companies & Licensed Money Lenders

Year	Number of Loans	Total Amount Loaned	Average Size Loan Made
1958	1,107,500	\$477,705,515	\$431
1959	1,097,226	526,682,817	480
1960	1,094,512	547,824,471	501
1961	1,169,699	605,687,740	518
1962	1,304,155	700,906,537	537
1963	1,379,861	769,547,724	557

Note: Data from Department of Insurance Reports.

TABLE 2

Small Loan Balances Outstanding—Small Loan Companies and Licensed Money Lenders

December 31

Year	Number of Accounts	Total Loan Balances	Average Loan Balance
1958	892,111	\$315,827,669	\$354
1959	920,747	360,019,949	391
1960	957,965	391,548,554	409
1961	992,193	426,157,346	429
1962	1,055,356	482,246,939	456
1963	1,112,869	530,031,083	475

Note: Data from Department of Insurance Reports.

CASH LENDING AS A PART OF CONSUMER CREDIT

13. Consumer credit may be regarded as consisting of contractual obligations entered into by consumers for personal rather than business reasons and not including purchase of houses. It includes indebtedness incurred in the form of charge accounts, contracts for goods and services on instalment payments and personal cash borrowings without attendant collateral in the form of stocks and bonds. It readily falls into two main divisions which may be designated as:—

- (a) Sales Financing
- (b) Cash Loans

14. Instalment sales financing is a service to enable consumers to make purchases which they are unable, or do not wish to make out of their savings. The unpaid balance of the purchase price may be financed by the dealer who makes the sale or the conditional sale contract may be assigned by the dealer to a company which specializes in accepting such consumer obligations.

15. By way of comparison, cash loans by consumer loan companies are made as a result of direct negotiation between the borrower and lender with no dealer intermediary. Decisions as to size of loan, term of loan and use of borrowed money are reached as a result of face-to-face negotiation with the borrower after a credit investigation has been completed by the lender or his staff. Since the majority of consumer loans are made without liquid or readily saleable security, lenders must regard character and paying ability as of prime importance and therefore must ensure that these factors are carefully assessed.

16. Another clearly marked difference between the two major divisions of consumer credit is in the purpose for which each is used. Sales financing is obviously only used by consumers to acquire goods or services whereas cash loans are used for a variety of purposes (see Table 4, page 10). Families use credit in the form of cash loans very much as governments and businesses do in refunding short term obligations into more manageable, longer term repayment plans. Also, many consumer loans are used to tide families over periods of unexpected temporary interruption of income due to illness, layoffs, strikes, etc., while others enable them to take advantage of opportunities to improve living conditions or family income by a timely move or enrollment for additional education.

17. Credit unions are an important source of instalment cash loans. Their growth in recent years has paralleled that of consumer loan companies. They have limitations in that their loans are available only to their members and their supply of funds depends, to a considerable extent, upon their members' ability to save through deposits or purchase of shares. Credit unions are exempt from income taxes and frequently enjoy substantial operating economies such as voluntary unpaid employees, and low cost or free office rents. Because their members usually have some close bond of association, credit investigations and collection costs are considerably lower than those of ordinary commercial lenders. Credit unions share with banks the privilege of accepting deposits which is, of course, a considerable advantage in the accumulation of low cost capital.

18. Banks have increased their activities in the consumer loan field since 1958 and are now the fastest growing segment of the cash loan division of consumer credit. They usually set a level of credit standards which cannot be met by considerable numbers of Canadian consumers. The arrangements in use by Canadian banks to participate in the consumer loan business to the extent they now do have been available to them for many years. It seems reasonable to assume that it was only after licensed consumer loan companies established the honesty and good money management abilities of Canadians over some twenty years of experience that the banks reached the conclusion that they could make such loans at least to selected risks who can supply a good measure of actual security to go with their acknowledged dependability of character. To the extent that banks do make character loans without real security, the borrowers are likely to be those who have built up a known reputation for integrity through previous dealings in other aspects of banking business over a period of some years. Considering that banks' lending resources come from deposit funds which amount to many times their own capital, it is logical that they must, at all times, be conscious of their trustee responsibilities and are not likely to take the risks considered normal by well-managed consumer loan companies.

19. Caution must be exercised to preserve a rate structure for licensed small loan lenders which will enable them to continue to service that segment of borrowers who are unable or unwilling to meet the banks' loan requirements. There can be no doubt that the variety of the borrowing needs of consumers will always be wide enough so that it is unlikely ever to be adequately served by any one type of lending institution.

20. The following table (Table 3), derived from Bank of Canada reports, illustrates the rate of growth of consumer credit in Canada among the major components of the two main divisions described in this section. The fact that consumer loan companies have increased their share of the total consumer credit market from 9.4% to 15.5% between 1949 and 1963, amply demonstrates that consumer loan companies have shaped their cash loan services to meet the

needs of the consumer, and that the cost of the loan is only one of the considerations taken into account by borrowers. Parliament in its desire to regulate should recognize that these lending institutions have responded to meet the needs of the consumer so that regulation should be aimed at retaining what is good in the present cash loan market system and eliminating only the abuses.

TABLE 3
CREDIT EXTENDED TO CONSUMERS BY RETAIL DEALERS AND
CERTAIN FINANCIAL INSTITUTIONS

	(Millions of Dollars)			(% of Total Consumer Credit)		
	1949 ⁽⁵⁾	1957 ⁽⁶⁾	1963	1949	1957	1963
CASH LOANS						
Banks ⁽¹⁾	173	421	1,432	21.1	15.9	29.4
Consumer Loan Cos. ⁽²⁾	77	347	755	9.4	13.1	15.5
Credit Unions ⁽³⁾	63	258	669	7.7	9.7	13.7
Total.....	313	1,026	2,856	38.2	38.7	58.6
SALE CREDIT						
Retail Dealers ⁽⁴⁾	389	826	1,087	47.6	31.2	22.3
Instalment Sales Finance Cos.....	116	780	874	14.2	29.5	18.0
Consumer Loan Cos.....	—	15	55	—	.6	1.1
Total.....	505	1,621	2,016	61.8	61.3	41.4
TOTAL CONSUMER CREDIT	<u>818</u>	<u>2,647</u>	<u>4,872</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

SOURCE: Bank of Canada Statistical Summary Finance Supplement 1957 (1949 figures).
Bank of Canada Statistical Summary Supplement 1963 (1957 & 1963 figures).
Bank of Canada Statistical Summary March, 1964.

- NOTES: (1) Loans to individuals other than for business purposes or home improvements and not fully secured by marketable stocks and bonds.
(2) Loans made by companies licensed under the Small Loans Act and affiliated companies usually repaid in instalments.
(3) Not secured by mortgages.
(4) Charge account credit and instalment sale credit combined.
(5) The year 1949 was chosen as a starting point because it is the year chosen by the Dominion Bureau of Statistics as its base year for the cost of living index.
(6) The year 1957 is the last full year before the banks' entry into the field through special departments set up for this purpose.

21. With regard to facilities of the three major components of the instalment cash lending section of consumer credit in Canada, the figures as of December 31, 1963, on number of outlets were:

Small Loans Licensees	1,580
Credit Unions	4,638
Bank Branches	5,447

CHARACTERISTICS OF CONSUMER LOANS AND BORROWERS

22. Borrowers from consumer loan companies represent a wide range of occupations, incomes and ages. A large proportion are skilled or semi-skilled workers employed in industry with 60 per cent in the \$200 to \$500 per month income range. Nearly 70 per cent fall into the 20 to 45 year age group and about 75 per cent of borrowers are married. The majority use the services of consumer loan companies mostly during their early adult years when job mobility is likely to be highest and family responsibilities heaviest in relation to income.

23. Loans are available to credit-worthy applicants for any good purpose and reasons for borrowing are as varied as the people who borrow. Consolidation of debts or refunding of family obligations is the major purpose and in this

respect consumer loan companies operate as a "safety valve" in the structure of consumer credit. Unwise purchasing, sudden illness or accident, unforeseen layoffs and other emergencies sometimes create a debt situation which cannot possibly be paid when the debts fall due. In this circumstance a carefully planned consolidation programme enables the family to work its way out of debt at a pace suited to its income.

24. Because the information appearing in Tables 4 to 8 is not produced by all companies, these tables are based on the figures of companies which hold about 55 per cent of the total loans outstanding under the Small Loans Act. They serve to illustrate the characteristics of consumer loans and borrowers in some detail.

TABLE 4

Distribution of Loans by Principal Purpose—1963

Reason for Borrowing	Per cent of Total Number of Loans Made
Consolidation of Debts	37.16
Clothing	7.76
Fuel	0.72
Rent	0.72
Medical Expenses	3.52
Automobile	12.52
Travel	10.15
Education	0.60
Investment	0.37
Household Repairs	3.48
Furniture	5.76
Taxes	2.51
Assisting Relatives	4.86
Insurance Premiums	1.62
Moving Expenses	1.00
Mortgage and Interest	0.61
Miscellaneous	6.64
Total	100.00

TABLE 5

Distribution of Loans by Occupation of Borrower—1963

Occupation	Per cent of Total Number of Loans Made
Skilled, Semi-Skilled	47.29
Unskilled	16.27
Service Workers	8.15
Sales Persons	2.94
Clerks and Kindred Workers	9.25
School Teachers	1.02
Federal, Provincial, County, City	6.41
Managers, Officials, Proprietors	4.80
Professional	0.67
Farmers	1.78
Pensioned and Independent	1.34
Miscellaneous	0.08
Total	100.00

TABLE 6

Distribution of Loans by Borrowers' Monthly Income—1963

Percent of Loans Made by Borrowers' Monthly Income
as Percent of Total Loans

Monthly Income	By Number	By Amount
\$ 0-\$200.00	9.49	5.03
200.01- 300.00	22.05	16.95
300.01- 400.00	29.85	29.70
400.01- 500.00	20.23	23.53
500.01-1500.00	18.28	24.79
Total	100.00	100.00

TABLE 7

Distribution of Loans by Age of Borrower—1963

Percent of Loans Made by Age
as Percent of Total Loans

Age of Borrower	By Number	By Amount
* Less than 20	1.36	0.93
20-24	15.21	10.60
25-29	14.41	13.26
30-34	16.14	17.05
35-39	13.38	14.73
40-44	12.26	13.91
45-49	9.98	11.37
50-54	8.31	9.27
55-59	5.30	5.69
60-64	2.74	2.58
65 & Over	0.91	0.61
Total	100.00	100.00

* When a loan is made to minor it is the policy of the major lenders to require a responsible adult as joint maker (usually a relative).

LENDING OPERATIONS

25. Borrowers from consumer loan companies, are as a group first class managers of family income. There are some however who are relatively unsophisticated in terms of business dealing. This places a good deal of responsibility on conscientious lenders to assist and advise these borrowers as to the choice of the best loan for their circumstances. Members of the Canadian Consumer Loan Association recognize and meet this responsibility.

26. The preliminary interview in the lender's office encompasses much more than simply filling in an application form. In many cases intervention between the applicant and his existing creditors, budget counselling and financial guidance occupy a considerable amount of time and may be even more valuable to the applicant than the loan which solves his immediate problem.

27. Loans must, of course, be made to suit the consumer's individual needs and circumstances. This involves consideration by both borrower and lender of such matters as type and length of employment, regularity of income, size

of income related to essential living expenses and evidence of family co-operation. The lender must also consider the applicant's existing debts, paying record, future earning ability and stability. By analyzing all of this information in conjunction with the purpose for which the money is to be used, the interviewer and the applicant can arrive at the size of loan which will best accomplish the purpose and fit into the applicant's ability to repay. In most cases both husband and wife are present to receive the explanation of the loan and read the completed documents so that family understanding and cooperation is ensured.

28. It should be remembered that much of the foregoing procedure must be completed whether or not a loan is made. The entire cost involved in processing applications which do not result in loans is borne by the lender as no charge is made to the customer until he actually has a loan outstanding. There is no obligation on the prospective borrower to accept the lender's advice and he is always free to refuse to accept the loan offered. Lenders are, of course, also free to refuse to make a loan when it appears that a loan of a size appropriate to an applicant's income will not solve his problem. Most lenders currently find that only about 50% of applications after careful investigation actually result in loans being made.

29. To assist in determining the credit capacity of prospective borrowers and prevent over-extension of credit, licensees have associated themselves in self administered Lenders' Exchanges under the sponsorship of the Canadian Consumer Loan Association. These exchanges maintain a record of all the loans currently outstanding with participating members and provide a means whereby the members are able to ascertain by telephone whether or not an applicant has an open loan with any other member company. Loans made and loans paid off are reported to the exchange daily so that the information on file is kept as up-to-date as possible. Members provide the capital required to equip exchange offices and pay all costs of organization and administration. Such exchanges are only practical in centres having a sufficient number of loan offices and open accounts to keep the cost per clearance at a reasonable figure. At the present time exchanges are operating in Windsor, Toronto-Hamilton-Oshawa, Ottawa-Hull, Montreal and Vancouver-New Westminster and it is expected that others will be opened in the future.

30. Table 8 shows the relationship between borrowers' incomes and average size loan made. It reveals that loans transacted are well within the borrower's ability to repay since he commits himself on the average to only a little more than $1\frac{1}{2}$ times his monthly income.

TABLE 8

Ratio of Average Size Loan to Average Monthly Income of Borrowers

Monthly Income	Ratio of Average Size Loan to Average Monthly Income
\$100.01-\$ 200.00	1.82%
200.01- 300.00	1.80%
300.01- 400.00	1.74%
400.01- 500.00	1.59%
500.01-1,500.00	1.27%
	<hr/> 1.59%

COLLECTIONS AND WRITE-OFFS

31. The need for detailed and careful supervision of a large number of payments is an inevitable result of making instalment loans. The Small Loans Act requires that: "Every loan shall be repayable in approximately equal instalments of principal or of principal and costs of the loan at intervals of not more than one month each". This requirement imposes on lenders and borrowers the need to agree on a mutually suitable due date for monthly instalments and these dates become the most important check points in regulating the progress of the repayment of loans.

32. Due dates are carefully chosen to avoid conflict with the borrower's other regular monthly commitments and are prominently shown on documents signed by the borrower and on the receipt booklet given to the customer at the time the loan is made. Most lenders file customer accounts by due date and employ some system whereby these are examined daily so that overdue accounts may be followed up according to the lender's collection policy.

33. Overdue accounts are controlled by reminder notices, telephone calls, letters, and, in some cases, personal calls at customers' homes. When borrowers encounter emergencies resulting from sickness or accidents, layoffs, strikes, etc., it is sometimes necessary to rearrange payment schedules to provide more convenient terms. Licensed lenders are well aware that it is in their own interest to pursue a fair and reasonable collection policy and retain the good will and cooperation of borrowers. It is a matter of record that consumer loan companies cooperate fully with the armed forces benevolent funds and other welfare organizations when such organizations are called upon to assist families to adjust their affairs.

34. Some overdue accounts result from serious illness, changed circumstances, family break-up or absconding debtors and become write-offs despite the best efforts of lenders to avoid losses. Also some write-offs are voluntarily made when lenders become aware of personal misfortunes which would create undue hardship to borrowers who try to continue to make payments despite their circumstances. The relatively good write-off record in the consumer loan industry in recent years is achieved by close attention to each individual account which, of course, requires additional employees and increases the cost of operating branch offices. Without this additional staff write-offs would be considerably higher. It should also be noted that the good write-off record has occurred in a period of high employment and generally favourable economic conditions.

35. Tables 9 to 12 form a statistical record of overdue accounts and write-offs in the industry. They are compiled from annual reports of the Department of Insurance for the years indicated, the report for 1962 being the latest available.

TABLE 9
OVERDUE ACCOUNTS RELATED TO NUMBER OF SMALL LOANS OUTSTANDING
December 31

Year	Under 2 Months Arrears	% of Total Loans O/S	2 to 6 Months Arrears	% of Total Loans O/S	Over 6 Months Arrears	% of Total Loans O/S	Total No. in Arrears	% of Total Loans O/S
1958.....	147,637	16.5	57,790	6.4	29,519	3.3	234,946	26.2
1959.....	155,006	16.8	65,613	7.1	36,565	3.9	257,184	27.8
1960.....	171,091	17.8	77,421	8.1	45,221	4.7	293,733	30.6
1961.....	92,613	9.3	80,383	8.1	52,954	5.3	225,950	22.7
1962.....	99,799	9.4	88,840	8.4	54,402	5.1	243,041	23.0

NOTE 1: O/S—Outstanding.

NOTE 2: Due to a change in the method of reporting, accounts in arrears less than one month are excluded from the 1961 and subsequent figures.

NOTE 3: Includes accounts overdue by mutual agreement between borrower and lender.

TABLE 10

Year	Number of Loans Made	Suits Filed	Number of Suits Per 1,000 Loans Made	Number of Offices	Number of Suits Per Branch
1958.....	1,107,500	2,176	1.9	892	2.43
1959.....	1,097,226	2,270	2.0	979	2.31
1960.....	1,094,512	2,899	2.6	1,074	2.70
1961.....	1,169,699	3,424	2.9	1,211	2.82
1962.....	1,304,155	3,657	2.8	1,323	2.79

TABLE 11

Year	Number of Loans Made on Chattels	Number of Seizures of Chattels	Number of Seizures per 1,000 Loans Made	Number of Offices	Number of Seizures per Office
1958.....	718,343	1,310	1.8	892	1.46
1959.....	698,565	1,388	1.9	979	1.41
1960.....	805,270	1,818	2.2	1,074	1.69
1961.....	836,764	1,880	2.2	1,211	1.55
1962.....	880,715	2,059	2.3	1,323	1.55

TABLE 12

Year	Average Amount Outstanding \$	Gross Write-Off \$	%	Net Write-Off \$	%
1958.....	272,513,649	2,400,590	.8	2,058,690	.7
1959.....	337,923,809	2,789,174	.8	2,287,539	.7
1960.....	375,784,252	3,482,897	.9	3,916,765	.8
1961.....	408,852,914	4,735,561	1.1	4,010,102	1.0
1962.....	454,202,109	5,619,736	1.2	4,535,134	1.0

RATE AND REGULATION OF SMALL LOANS

36. The "graduated" rate structure of the Small Loans Act recognizes that the smaller loans must bear a higher rate or they cannot be made available to consumer loan borrowers. Cost of investigation, documentation, administration and collection are just about the same for a loan of \$100 as for one of \$400 or

\$800. The gross dollar yield on the smaller loan is, of course, lower than on the larger one and it is to compensate for this and encourage lenders to provide service to the small-sum borrower that the highest rate applies to the smallest size loans.

37. Appendix "B" demonstrates that the graduated rate system is widely accepted in the United States. It is also notable that U.S. Small Loans Laws permit higher rates *in every case* than those permitted under the Canadian Small Loans Act.

38. Rates on loans made under the Small Loans Act are shown on the promissory notes as follows:—

2% per month (24% per annum payable monthly) on any part of the unpaid principal balance not exceeding \$300;

1% per month (12% per annum payable monthly) on any part thereof exceeding \$300 and not exceeding \$1,000; and

$\frac{1}{2}$ % per month (6% per annum payable monthly) on any remainder thereof.

After last payment falls due:—

1% per month (12% per annum payable monthly) on entire unpaid principal balance until fully paid.

Promissory notes also show the dollar amount of the loan actually received by the customer as well as the number and amount of monthly payments and since there are no bonuses or other charges of any kind the borrower can easily determine the cost of the loan in dollars.

39. Contracts bearing maximum permissible rates under the Small Loans Act are regulated in all respects and by this we means:—

- (a) The term of the contract is limited on loans up to \$500 to not more than 20 months and on loans between \$501 and \$1,500 to not more than 30 months.
- (b) Each loan must be fully amortized over the term of the contract in approximately equal monthly instalments, including the final instalment.
- (c) The rates cannot exceed those prescribed by the Act and these rates must be applied to the principal balance from time to time outstanding, not in advance. The maximum rates set forth in the Act are charged by all members of the Association as they feel these rates are the minimum at which a satisfactory service can be provided.

40. Complete annual reports divulging every facet of the regulated business are filed by each licensed company. The Department of Insurance annually examines licensees and compiles the reports of operations into a published public document. The former Superintendent of Insurance, Mr. K. R. MacGregor, testifies before this Committee that the only inaccuracies his examiners had reported to him about licensees' operations were found to be "just mistakes in the branch offices made by clerks". Mr. MacGregor also said "We get practically no complaints about small loans under the Act."

LOANS OVER \$1,500

41. In presenting this brief the Canadian Consumer Loan Association has endeavoured to present facts and figures to provide as much useful information as possible with regard to the business of its membership as conducted under the Small Loans Act. The Association does not receive information from members who may, directly or through affiliates, conduct other kinds of business

whether or not related to the field of consumer lending. However, for the purpose of appearing before this Committee the Association made an effort to obtain information regarding practices of companies in the over-\$1,500 loan field.

42. Most of the members of the Association have interests in the business of lending in amounts in excess of \$1,500. Some make these loans through the same company which holds the small loans license while others have affiliated companies for this purpose. In the field above \$1,500 there is considerable diversity in lending policies as the companies are free to choose the type and size of loans they wish to make. In addition to consumer loans these include farm loans, small business loans, real estate loans and other specialized types of financing of various kinds.

43. The total of consumer loans outstanding in Canada at December 31, 1963, was \$2,856,000,000. Of this total \$530,000,000 were balances of loans regulated by the Small Loans Act and \$225,000,000 (or 7%) were balances of loans originally made in amounts over \$1,500 by consumer loan companies or their affiliates. The remaining \$2,101,000,000 (or 74%) of the total were balances of loans made by banks and credit unions.

44. The Association data indicate that more than 79% of loans over \$1,500 made by consumer loan companies are made to borrowers with annual incomes of more than \$5,000. This fact is of exereme importance because borrowers with the higher incomes have access to a number of alternative sources of cash loans, and often have the marketable collateral needed to obtain the most favourable rate and term.

45. From replies received from companies which hold over 80% of the over-\$1,500 business, the following facts were ascertained regarding their loans in the larger sizes:

- (a) *Rates*—Range from 1% per month to 2% per month on declining and from 6% to 13% per annum for add-on plans and 9% per annum for discount plans.
- (b) *Maturities*—Range up to 60 months, depending on size of loans but a majority of the companies do not write loans for longer than 36 months.
- (c) *Rebates*—All of the companies which use a version of precomputed charges (i.e. discount or add-on) give rebates and virtually all use the generally accepted Rule of 78th or "Sum of the Digits" formula.
(See Appendix "C")
- (d) *Terms of Payment*—Because many of these larger loans are made to small businesses or to farmers, fishermen, lumber workers and other seasonal workers, terms of repayment often vary as to time and amount in accordance with the needs and convenience of the borrowers.

DISCLOSURE OF FINANCE CHARGES

46. Experience of Association members in dealing with hundreds of thousands of borrowers clearly shows that it is the scheduled cost of the loan in dollars and the amount of the monthly payment that are of interest to consumer loan customers.

47. Under the Small Loans Act every size loan above the first breaking point (\$300) yields a different percentage rate of return each month and even within that framework the borrower himself can alter the rate by the manner in which he repays the loan. Furthermore, many borrowers pre-pay

current loans with the proceeds of a new, larger loan which results in their being charged a lower rate than the same loan would yield if paid to maturity according to contract. What then should the lender tell the borrower in *advance* in connection with a loan of \$1,200 for a 12 month term in order to meet the disclosure requirements of "simple annual interest"? Should he tell him it will cost him 14.04% per annum if he pays it off in the first month; 15.48% per annum if he pays it off the sixth month; or 16.80% if it runs to maturity? (See Appendix "D") To require small loan transactions to be stated in such bewildering terms would result in misinterpretation on the part of customers, and increase the lenders' cost of doing business.

48. As has been stated before, loans made under the Act disclose the monthly interest rate and the annual interest rate for each segment of the loan (as set forth in paragraph 38). In addition, because the proceeds of the loan and the number and amount of payments are shown, the borrower can readily calculate the scheduled dollar cost. It comes as no surprise, therefore, that all provincial legislation requiring disclosure of finance charges invariably has exempted the business of licensees regulated under the Small Loans Act.

49. In the Province of Manitoba on April 30, 1962, The Time Sale Agreement Act was given third reading. The bill required that in connection with credit sales contracts, the "finance charges" in dollars and also the "rate of interest" and its method of calculation be shown. Provision was made in the Act that it would not come into force until proclamation. During the summer and fall of 1962 interested parties made representations to the government pointing out the inherent difficulties created by the bill. Those heard included the large department stores, automobile dealers and retail merchants. On May 6, 1963, an Act to amend the Time Sale Agreement Act was given Royal Assent and came into force September 1, 1963. This amendment eliminated the requirement that the "rate of interest" be stated.

50. In Alberta the Credit & Loan Agreements Act of 1954 requires that the cost of sales financing be stated in dollars and that the cost of loans be stated in either dollars or per cent per annum on declining balances. Exempted are loans under the Small Loans Act, loans made under the Bank Act and Credit Union loans. In addition, Part I, para. 4(j) read:

the total additional charge, if any, other than court costs, to be paid by the buyer in event of default, expressed as a money charge or as a rate per centum per annum on the balance from time to time owing by the borrower.

On March 29, 1963, An Act to amend the Credit and Loan Agreements Act was passed containing clauses which read as follows:

Part I 4(1)(c)(i.1)—"The total cost to the buyer above the regular cash selling price expressed as the equivalent of simple interest (correct to within 1%) on the declining balances from time to time outstanding."

Part II, 7(d)—"the whole cost of the loan to the borrower expressed either as a rate per centum per annum on the amount actually advanced to the borrower and declining balances thereof from time to time outstanding".

Part I, para. 4(j) was amended to remove the words "as a money charge or". The same charge was directed to Part II, 7(g).

Provision was made whereby these clauses would come into force on a date to be fixed by proclamation. Since that time there have been a number of meetings between representatives of the government and various organizations including the automobile dealers, department stores, retail merchants, the

Federated Council of Sales Finance Companies and other interested parties many of which presented submissions pointing out the inherent weaknesses of the amending act and the difficulties it created. So far the pertinent clauses and sections have not been proclaimed.

51. Like the small sum borrower, our large loan borrower also wants to know the total amount of dollar charges on his loan and the monthly payments needed to fully repay the loan over the term he chooses. This information is given to him and he can then compare the cost of his loan with that of other lenders.

52. Association members express their large loan charges as dollar add-on, discount, per cent per month or per cent per annum of a combination of these methods. Credit unions and banks, which do the largest portion of this business, use a wide variety of methods in calculating and expressing their charges. Furthermore, in cost disclosure those lending agencies which accept deposits from the public, for example the banks and credit unions, should be required to state the loan cost after giving effect to any balance retained on deposit by a borrower as a condition of the loan or where the borrower is required to pay more than the monthly payments needed to repay the loan.

53. It must be recognized that regardless of whether disclosure is made in terms of dollar cost or as an annual interest rate it is only when all conditions including rate, default charges, prepayment penalties, legal fees, bonuses and length of contract are comparable as between all types of credit grantors such as banks, credit unions, retail stores, sales finance companies and consumer loan companies can a meaningful comparison be made. The Association strongly believes that unless all these types of credit grantors are placed on a comparable basis, cost disclosure would tend to confuse rather than assist the credit shopper to select the most advantageous transaction. Previous testimony before this and other committees would seem to indicate that other credit grantors have claimed that it is impossible to express their charges in terms of simple annual interest but that such costs could be stated in dollars.

54. On the other hand, if all lenders must reduce their charges to a rate per cent per annum, then a method must be found for all to convert these various methods to a common denominator. This implies the need for a law to control the form of contracts of not only lenders, but sales finance companies, credit unions, banks and other credit grantors. If such regulation is intended then any proposal must encompass all consumer credit grantors or the legislation will be discriminatory and ineffective.

55. The calculation and understanding of instalment credit charges in terms of simple annual interest for all types of credit transactions is highly complicated. While the average consumer could readily verify his dollar cost, it would be much less likely he would be able to verify the accuracy of the quoted interest rate. It would therefore be a tremendous regulatory job to police many thousands of individual credit transactions through all kinds of credit agencies and thousands of retail stores and, without proper policing, the legislation would be ineffective.

56. In the United States a sub-committee of the Senate Committee on Banking and Currency, chaired by Senator Paul Douglas, has held hearings over a five year span on this subject. The Chairman of the Committee, Senator Willis Robertson, estimates the hearings (4,400 pages of testimony) have consumed "the largest amount spent on any bill" in the Committee's history. So far the Committee has been unable to make its final recommendations. The apparently simple concept that everyone will be better off by inserting "Truth

in Lending" beclouds the actuality of a complex credit marketplace wherein the average consumer is neither the fool nor the wizard, but generally is making credit or loan arrangements which are satisfactory to him.

57. The consumer is a person of individual preferences and, for instance, given all pertinent facts concerning similar products may make his purchases from a merchant whose service he has liked but whose price is higher. The same value is placed on loan service by customers of Association members who know they can obtain their loans elsewhere.

58. There is no general indication that the Canadian consumer is taking on more credit or loans than he can handle. Rather, his payment record indicates otherwise.

59. There will always exist in our society those who will misuse credit and no simple expression of the annual rate per cent can correct this defect. The cure for such persons is counselling and money management advice, not superimposing a costly administrative burden on the entire credit system because of this small percentage of credit users. Most lenders now provide money management advice and counselling and one of the largest companies annually distributes thousands of money management booklets and other consumer education material.

60. The Association believes that the apparent virtue of expression of rate per cent per annum, when closely scrutinized, is not a panacea toward making every consumer a wise credit user. Rather, much more can be accomplished by credit education in the adult schools, secondary schools, and other public information programs.

CONCLUSIONS

61. It is our opinion that the \$1,500 ceiling in the Small Loans Act should be retained. Loans over \$1,500 are usually made to people of more substance who are able to bargain for rates and conditions without need for restricting regulations. Any changes in the rate and ceiling such as that recommended by the Royal Commission on Banking & Finance could have a severe effect on consumer loan service. Before any realistic changes could be effected a most comprehensive study would have to be made to ensure that any rate adopted would continue to provide an adequate loan service to the public.

62. For all the reasons expressed in the section of this brief entitled "Disclosure of Finance Charges" the Association supports full disclosure of costs of credit transactions but believes that such required disclosure should be in terms of dollar cost.

63. Consumer credit has been an important contributor to bringing Western democracies to a high plateau of material affluence. Its traditional way of doing business should not be lightly tampered with except when absolutely necessary to protect the public against abusive practices or unconscionable charges.

Appendix "A"**CANADIAN CONSUMER LOAN ASSOCIATION MEMBERS**

as of January 1, 1965

Associates Finance Company Limited
Astre Finance Company Limited
Atlantic Finance Corporation Limited
H. Bell Finance Limited
Beneficial Finance Co. of Canada
Budget Financing Limited
Canadian Acceptance Company
Canadian Personal Loan and Finance Inc.
Capital Finance Limited
Citizens Finance Company Limited
Clifton Finance Company Limited
Commercial Credit Plan Limited
Community Finance Corporation
Cosmopolitan Finance Limited
The Crescent Finance Corporation, Limited
Custom Finance Limited
Danforth Finance Company
Dollar Finance Corporation Limited
Don Finance Company Limited
Equitable Finance Corporation Limited
Excel Finance Corporation Limited
Fairway Finance Corporation, Limited
General Finance Company Limited
General Finance Corporation Limited
Globe Mortgage and Loan Company Ltd.
Household Finance Corporation of Canada
Independent Finance Corporation Limited
Laurentide Finance Company
Lombank Finance Limited
Lucerne Finance Corporation Limited

Marina Finance Company Limited
Merchants Finance Limited
National Plan Corporation Limited
Nelson Finance Corporation
Niagara Finance Company Limited
O'Neill Finance Company Limited
Pacific Finance Credit Limited
Personal Loan and Finance Corporation Limited
Popular Finance Corporation Limited
Prudential Family Credit Limited
Public Finance Corporation Limited
Reliance Finance Company Limited
Rideau Finance Corporation Limited
Seaboard Finance Company of Canada, Limited
Severn Finance Limited
Standard Credit & Loan Corporation
Sterling Finance Corporation Limited
Superior Finance Limited
Toro Finance Company Limited
Trans Canada Credit Corporation Limited
Tri-State Finance Co. Limited
Union Finance Company Limited
United Dominions Finance Corporation Limited
Victory Finance Corporation Limited.

Appendix "B"

DOLLAR CHARGES ON DIFFERENT SIZE LOANS REPAYED ACCORDING TO CONTRACT (12 MOS.)
AT LAWFUL MAXIMUM RATES OF CHARGE UNDER 43 SMALL LOAN LAWS ARRANGED BY
LOAN SIZE CEILING

UNITED STATES

STATE		RATE		LOAN SIZE				
		(and no. of days' interest per year)						
\$300 Loan Ceiling				\$100	\$300			
Alabama.....	3-2% (200)-360.....			\$20.48	\$58.44			
Hawaii.....	3 $\frac{1}{4}$ -2 $\frac{1}{2}$ % (100)-365.....			24.56	62.64			
Louisiana.....	3 $\frac{1}{4}$ -2 $\frac{1}{2}$ % (150)-365.....			24.56	66.96			
Maryland.....	3%-360.....			20.60	61.68			
Rhode Island.....	3%-365.....			20.84	62.52			
Wisconsin.....	2 $\frac{1}{2}$ -2-1% (100-200)-360.....			17.00	42.84			
				\$100	\$300	\$500		
\$500 Loan Ceiling								
Iowa.....	3-2-1 $\frac{1}{2}$ % (150-300)-365.....			\$20.84	\$56.16	\$81.52		
New Jersey.....	2 $\frac{1}{2}$ -1 $\frac{1}{2}$ % (300)-360.....			17.00	51.00	71.44		
				\$100	\$300	\$500	\$600	
\$600 Loan Ceiling								
Florida.....	3-2% (300)-365.....			\$20.84	\$62.52	\$97.00	\$112.20	
Minnesota.....	2 $\frac{1}{2}$ -1 $\frac{1}{2}$ % (300)-360.....			18.68	56.28	85.00	97.08	
North Carolina.....	Add-on: 20-18-15-6% (100-200-300).....			20.00	53.00	65.00	71.00	
Pennsylvania.....	3-2-1% (150-300)-360.....			20.60	55.32	77.08	85.80	
Utah.....	3-1% (300)-365.....			20.84	62.52	90.04	99.96	
Vermont.....	2 $\frac{1}{2}$ -2-1% (125-300)-365.....			17.24	49.56	72.16	81.00	
Virginia.....	2 $\frac{1}{2}$ -1 $\frac{1}{2}$ % (300)-365.....			17.24	51.72	79.12	90.96	
				\$100	\$300	\$500	\$800	
\$800 Loan Ceiling								
Illinois.....	3-2-1% (150-300)-360.....			\$20.48	\$55.32	\$77.08	\$101.44	
Kentucky.....	Add-on: 20-15-11% (150-600).....			20.00	52.44	82.48	119.44	
New York.....	2 $\frac{1}{2}$ -2- $\frac{1}{2}$ % (100-300)-360.....			16.88	45.72	64.72	83.40	
West Virginia.....	Add-on: 19-16-12% (200-600).....			19.00	54.00	86.00	126.00	
				\$100	\$300	\$500	\$1,000	
\$1,000 Loan Ceiling								
Alaska.....	4-2 $\frac{1}{2}$ -2% (300-600)-365.....			\$28.28	\$84.72	\$129.76	\$215.48	
Arizona.....	3-2-1% (300-600)-360.....			20.48	61.56	95.56	154.16	
Connecticut.....	Add-on: 17-9% (300).....			17.00	51.00	69.00	114.00	
Idaho.....	3-2-1% (300-500)-360.....			20.48	61.56	95.56	147.68	
Indiana.....	3-2-1 $\frac{1}{2}$ % (150-300)-365.....			20.84	56.15	81.52	135.80	
Michigan.....	2 $\frac{1}{2}$ -1 $\frac{1}{2}$ % (300)-365.....			17.24	51.72	77.44	125.60	
Montana.....	Add-on: 20-16-12% (300-500).....			20.00	60.00	92.00	152.00	
New Mexico.....	3-2 $\frac{1}{2}$ -1% (150-300)-360.....			20.48	58.44	82.84	123.68	
North Dakota.....	2 $\frac{1}{2}$ -2-1 $\frac{1}{2}$ -1 $\frac{1}{2}$ % (250-500-750)-360.....			16.88	50.52	79.72	142.16	
Washington.....	3-1 $\frac{1}{2}$ -1% (300-500)-360.....			20.48	61.56	92.08	139.40	
Wyoming.....	3 $\frac{1}{2}$ -2 $\frac{1}{2}$ -1% (150-300)-360.....			24.20	66.00	91.24	132.44	
				\$100	\$300	\$500	\$1,000	\$1,500
\$1,500 Loan Ceiling or Over								
California.....	2 $\frac{1}{2}$ -2- $\frac{1}{2}$ % (200-500)-360.....			\$16.88	\$49.32	\$77.80	\$123.08	\$156.24
Colorado.....	3-1 $\frac{1}{2}$ -1% (300-500)-360.....			20.48	61.56	92.08	139.40	177.12
Kansas.....	3- $\frac{1}{2}$ % (300)-360.....			20.48	61.56	87.64	125.36	156.24
Maine.....	3-2-1 $\frac{1}{2}$ % (150-300)-360.....			20.60	58.44	86.32	141.56	193.44
Massachusetts.....	2 $\frac{1}{2}$ -2-1 $\frac{1}{2}$ % (200-600-1000)-360.....			16.88	49.32	77.80	142.76	189.00
Missouri.....	2 218-1 $\frac{1}{2}$ % (500)-360.....			14.96	44.88	74.92	119.24	148.20
Nebraska.....	2 $\frac{1}{2}$ -2-1 $\frac{1}{2}$ -1% (300-500-1000)-360.....			16.88	50.88	81.40	141.08	187.08
Nevada.....	Add-on: 9-8% (1000)+fee.....			21.00	57.00	81.00	126.00	166.00
New Hampshire.....	Add-on: 16-12% (600).....			16.00	48.00	80.00	144.00	204.00
Ohio.....	Add-on: 16-9-7% (500-1000).....			16.00	48.00	80.00	125.00	160.00
Oregon.....	3-2-1% (300-500)-360.....			20.60	61.68	95.68	147.68	186.84
South Dakota.....	3- $\frac{1}{2}$ % (300)-365.....			20.84	62.52	88.36	124.16	152.88
Texas.....	Add-on: 19-16-13-11-9-7% (100-200-300-500-1000).....			19.00	48.00	70.00	115.00	150.00

Seven states (Ark., Del., Ga., Miss., Okla., S.C., Tenn.) are omitted from the above list because they do not have small loan laws, or their contract rates of charge are inadequate or not indicative of actual rates of charge because of large non-refundable fees, etc.

CANADA

RATE		LOAN SIZE				
(and no. of days' interest per year)						
		\$100	\$300	\$500	\$1,000	\$1,500
2-1- $\frac{1}{2}$ (300-1,000)-360		\$13.46	\$40.38	\$60.75	\$98.70	\$126.60

Appendix "C"

THE SUM OF THE DIGITS OR RULE OF 78THS

The rule of 78ths is an arithmetical device for determining the rate at which charges are considered to be earned as the balance of an instalment loan is paid down. Although the rule of 78ths literally applies only to instalment transactions involving twelve equal monthly payments, its principle can be applied to transactions for shorter or longer periods.

As a theory, it falls between two extremes. One way to look at the charge is to assume that it is earned at the beginning of the transaction and collected in full with the first payment or two. Another way to look at it is to assume that all payments are first applied to pay off the principal amount loaned so that only the final payment or payments apply to cost. The rule of 78ths, however, like other commonly used interest rules, assumes that part of each monthly payment is applied to charges and the balance to principal. The question is—what will the proportion be?

According to the rule of 78ths, the total amount of charges is assumed to be divided up, or earned, in proportion to the monthly outstanding balances of the face of the loan. For this purpose, consider that a loan (plus charges) is to be paid in twelve equal monthly payments. The amount owed for the first month may be considered as equal to twelve times the monthly payment. When the first payment is made, the balance is reduced accordingly and it may be considered equal to eleven monthly payments.

What we have, then, is a series of monthly balances equal to 12 times the monthly payment, 11 times the monthly payment, 10 times, and so on to 1 times the payment. The sum of the figures 12, 11, 10, 9, 8, 7, 6, 5, 4, 3, 2, and 1 is 78. Since the balance for the first month is equal to 12 monthly payments, the charge allocated, or earned, in that month is equal to $12/78$ ths of the total. The balance for the second month is equal to 11 monthly payments, hence the charge earned in that month is equal to $11/78$ ths of the total.

Thus if a twelve month loan were repaid in full at the end of two months the borrower would have had the use of $23/78$ ths of the instalment units. He would therefore be entitled to a rebate of $78 - 23 = 55$ or $55/78$ ths of the total charge.

If the loan is for a longer term than twelve months the total number of instalment units is greater than 78. For instance, there are 120 monthly instalment units in a fifteen month loan, 171 in an eighteen loan and so on. However the principle of computing the rebate is the same regardless of the loan period.

Another method of expressing this formula is by using the sum of the monthly balances remaining after prepayment related to the sum of the monthly balances at the time of the making of the contract. The HFC Promissory Note sets forth this formula in the following wording: "The amount rebated shall be that portion of the Amount of Discount which the sum of the monthly balances of the Face Amount of Loan scheduled to be outstanding after the instalment date nearest to the date of such prepayment bears to the sum of all monthly balances of the Face Amount of Loan scheduled to be outstanding at the date hereof, both sums to be determined according to said schedule of payments."

Appendix "D"

\$1,200 Loan—12 Month Contract—\$109.25 Per Month

@

2% Per Month On First \$300; 1% Per Month to \$1,000; $\frac{1}{2}$ % to \$1,500

Installment Number	Interest Paid \$	Monthly Unpaid Principal Balance \$	Cumulative Interest Paid \$	Cumulative Principal Balance \$	Cumulative Monthly Yield %	Cumulative Yield Annualized %
		1,200.00		1,200.00		
1	14.00	1,104.75	14.00	2,304.75	1.17	14.04
2	13.52	1,009.02	27.52	3,313.77	1.19	14.28
3	13.05	912.82	40.57	4,226.59	1.22	14.64
4	12.13	815.70	52.70	5,042.29	1.25	15.00
5	11.16	717.61	63.86	5,759.90	1.27	15.24
6	10.18	618.54	74.04	6,378.44	1.29	15.48
7	9.19	518.48	83.23	6,896.92	1.30	15.60
8	8.18	417.41	91.41	7,314.33	1.33	15.96
9	7.17	315.33	98.58	7,629.66	1.35	16.20
10	6.15	212.23	104.73	7,841.89	1.37	16.44
11	4.24	107.22	108.97	7,949.11	1.39	16.68
12	2.14		111.11		1.40	16.80

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